

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Amendment No. 5

To

Form 10

GENERAL FORM FOR REGISTRATION OF SECURITIES
PURSUANT TO SECTION 12(b) OR 12(g) OF THE
SECURITIES EXCHANGE ACT OF 1934

The Nasdaq Stock Market, Inc.

(Exact Name of Registrant as
Specified in its Charter)

Delaware
(State or Other Jurisdiction of Incorporation or
Organization)

52-1165937
(I.R.S. Employer
Identification No.)

One Liberty Plaza
New York, New York
(Address of Principal
Executive Offices)

10006
(Zip Code)

Registrant's telephone number,
including area code:
212-858-4750

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Securities to be registered pursuant to Section 12(b) of the Act:

Not Applicable

Title of each class
to be so registered

Name of each exchange on which
each class to be registered

Securities to be registered pursuant to Section 12(g) of the Act:

Common Stock, par value \$.01 per share
(Title of class)

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Certain statements in this registration statement (the "Registration Statement") contain or may contain forward-looking statements that are subject to known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These forward-looking statements were based on various factors and were derived utilizing numerous assumptions and other factors that could cause actual results to differ materially from those in the forward-looking statements. These factors include, but are not limited to, The Nasdaq Stock Market, Inc.'s ("Nasdaq") 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. Most of these factors are difficult to predict accurately and are generally beyond our control. You should consider the areas of risk described 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, which speak only as of November 16, 2001. Readers should carefully review this Registration Statement in its entirety, including but not limited to Nasdaq's financial statements and the notes thereto and the risks described in "Item 1. Business-Risk Factors." Except for Nasdaq's ongoing obligations to disclose material information under the Federal securities laws, Nasdaq undertakes 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, Nasdaq claims the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

Item 1. Business.

Nasdaq Overview

Nasdaq operates The Nasdaq Stock Market(R), the world's largest electronic, screen-based equity securities market and the largest equity securities market in the world based on dollar volume. Since its inception in 1971, Nasdaq has been a leader in utilizing technology to democratize and extend the reach of the securities markets, with a current goal of becoming a truly global securities market.

Nasdaq provides products and services in the following three principal categories:

- o Corporate Client Group services (formerly known as issuer services) provide information services and products to Nasdaq-listed companies and is responsible for obtaining new listings on The Nasdaq Stock Market. In fiscal year 2000, Corporate Client Group services accounted for revenues of \$149.3 million, which represented approximately 17.9% of Nasdaq's total revenues. For the nine months ended September 30, 2001, Corporate Client Group services accounted for revenues of \$116.5 million, which represented approximately 18.2% of Nasdaq's total revenues. See "--Products and Services--Corporate Client Group Services" and "--Management's Discussion and Analysis of Financial Condition and Results of Operations."
- o Transaction services include collecting, processing and disseminating price quotes of Nasdaq-listed securities, the routing and execution of buy and sell orders for Nasdaq-listed securities and transaction reporting services. Market participants in The Nasdaq Stock Market, consisting of market makers, electronic communication networks ("ECNs") and order entry firms, each of which is described below, are the users of Nasdaq's transaction services. In fiscal year 2000, transaction services accounted for revenues of \$395.1 million, which represented approximately 47.4% of Nasdaq's total revenues. For the nine months ended September 30, 2001, transaction services accounted for revenues of \$305.8 million, which represented approximately 47.6% of Nasdaq's total revenues. See "--Products and Services--Transaction Services" and "--Management's Discussion and Analysis of Financial Condition and Results of Operations."
- o Market information services provide varying levels of quote and trade information to data vendors, who in turn sell it to the public. In fiscal year 2000, market information services accounted for revenues of \$258.3 million, which represented approximately 31.0% of Nasdaq's total revenues. For the nine months ended September 30, 2001, market information services accounted for revenues of \$176.9 million, which represented approximately 27.6% of Nasdaq's total revenues. See "--Products and Services--Market Information Services" and "--Management's Discussion and Analysis of Financial Condition and Results of Operations."

Nasdaq's growth and operating results are directly affected by the trading volume of Nasdaq-listed securities and the number of companies listed on The Nasdaq Stock Market. The following table illustrates Nasdaq's performance:

For the 12 months ended

For the 12 months ended

For the nine months

December 31, 1996

December 31, 2000

ended September 30, 2001

Total share volume (billions)	138.1 (124.7 */13.4**)	442.8 (424.0*/18.8**)	352.1 (347.8*/4.3**)
Percentage of total shares traded in the primary United States markets	55.6%	61.6%	59.7%
Dollar volume of equity securities traded on The Nasdaq Stock Market (billions)	\$3,301.7 (\$3,225.8*/\$75.9**)	\$20,395.4 (\$20,273.7*/\$121.7**)	\$8,587.3 (\$8,571.1*/\$16.2**)
Percentage of dollar volume of all equity securities traded in the primary United States markets	44.3%	62.9%	49.9%
Average Daily Share Volume (millions)	543.7 (490.9*/52.8**)	1,756.9 (1,682.4*/74.5**)	1,913.8 (1,890.4*/23.4**)
Average Daily Dollar Volume (billions)	\$13.0 (\$12.7*/\$0.3**)	\$81.0 (\$80.5*/\$0.5**)	\$46.7 (\$46.6*/\$0.1**)
Number of Nasdaq-listed companies (at period end)	5,556 (4,147*/1,409**)	4,734 (3,827*/907**)	4,218 (3,434*/784**)
Total domestic shares outstanding (billions) (at period end)	76.2 (64.7*/11.5**)	164.2 (156.3*/7.9**)	160.9 (152.6*/8.3**)
Market value of Nasdaq-listed companies (billions)(at period end)	\$1,517.1 (\$1,471.1*/\$46.0**)	\$3,597.1 (\$3,579.4*/\$17.7**)	\$2,303.1 (\$2,282.4*/\$20.7**)

* Indicates figures of companies listed on The Nasdaq National Market tier of The Nasdaq Stock Market.

** Indicates figures of companies listed on The Nasdaq SmallCap Market tier of The Nasdaq Stock Market.

As a result of this business growth, Nasdaq's pro forma total revenues increased from \$305.0 million in 1996 to \$832.7 million in 2000. During the same period, Nasdaq's pro forma net income increased from \$24.1 million in 1996 to \$124.4 million in 2000. For the nine months ended September 30, 2001, Nasdaq's total revenues were \$641.8 million and net income was \$53.7 million. Pro forma amounts assume the change in accounting principle adopted as of January 1, 2000 is applied retroactively. See "Item 2. Financial Information--Selected Consolidated Financial Data," "--Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Consolidated Financial Statements--Note 4."

As of September 30, 2001 there were 4,218 companies listed on The Nasdaq Stock Market, consisting of 3,434 companies listed on The Nasdaq National Market tier and 784 on The Nasdaq SmallCap Market tier. As of September 30, 2001, The Nasdaq Stock Market was home to the highest percentage of publicly-traded technology and service companies in the U.S., including approximately 77% of computer hardware and peripherals companies, 96% of computer networking companies, 85% of computer software and data processing companies, 86% of semiconductor companies, 70% of telecommunications and electronic companies, and 81% of biotechnology and health care companies. In addition, as of September 30, 2001, there were 458 foreign companies listed on The Nasdaq Stock Market, more than on any other U.S. equities market, consisting of 366 foreign companies listed on The Nasdaq National Market tier and 92 on The Nasdaq SmallCap Market tier. The number of listed companies includes those companies that may have otherwise been subject to delisting if not for a temporary suspension of certain listing standards effective as of September 26, 2001. See "--Products and Services--Corporate Client Group Services."

Nasdaq's Market Model

Nasdaq's market model is one of "open architecture." Participation in the trading activities on The Nasdaq Stock Market is not limited to any fixed number of market participants. This allows a large number of broker-dealers with widely different business models and trading technologies to participate in the Nasdaq network and compete with one another. The Nasdaq network, called the "Enterprise Wide Network II," is a telecommunications network that Nasdaq uses to deliver transaction and market information services to its market participants. See "--Products and Services--Transaction Services--Access Services." Market participants can access the network via the Nasdaq Workstation II, Nasdaq's proprietary operating system for the network, or through other customized operating systems. See "--Products and Services--Transaction Services--Access Services."

Market makers, also known as dealers, provide liquidity (the ability of a stock to absorb a large amount of buying and selling without substantial movement in price) by being willing to buy or sell securities at all times at publicly-quoted prices for their own account and by maintaining an inventory of securities for their customers. Market makers in a particular stock are required at all times to post their bid and offer prices (i.e., price at which they will buy and sell) into the Nasdaq network where they can be viewed and accessed by all market participants. Over 400 market makers participate in The Nasdaq Stock Market. On average, stocks listed on The Nasdaq Stock Market have 13 market makers. The minimum number of market

makers for any Nasdaq-listed stock is two and some stocks have over 80 market makers.

In addition to traditional market makers, the Nasdaq network also includes other broker-dealers operating as ECNs. ECNs provide electronic facilities for investors to trade directly with one another without going through a market maker. ECNs operate as order-matching and order-routing mechanisms and do not maintain inventories of securities themselves. Nasdaq also connects to other registered exchanges through SelectNet(R), SOES(sm) and SuperSoes(sm) (which are described below) for Nasdaq-listed stocks and through the Intermarket Trading System for exchange-listed stocks. The flexibility of the Nasdaq network means that innovators with new trading technologies or strategies have an opportunity to implement them quickly in The Nasdaq Stock Market.

An order entry firm is a broker-dealer, but not a market maker or an ECN. An order entry firm can use Nasdaq services to view price quotations and route customer orders for securities to a market maker or ECN posting quotes in The Nasdaq Stock Market for that security so that such orders can be executed.

Nasdaq's electronic systems centralize the price quotations from all market participants in a given Nasdaq-listed stock to help them compete and allow them to choose with whom they are going to trade. Nasdaq also gathers the trade and quote information from all of these market participants and passes it on to data vendors who resell this information to the investment community and the general public.

Nasdaq's History

Founded in 1971, Nasdaq was a wholly-owned subsidiary of the National Association of Securities Dealers, Inc. (the "NASD") until June 2000. The NASD, which operates subject to the oversight of the U.S. Securities and Exchange Commission (the "SEC"), is the largest self-regulatory organization ("SRO") in the United States with a membership that includes virtually every broker-dealer that engages in the securities business with the U.S. public. See "-- The Restructuring." In 2000, the NASD implemented a separation of Nasdaq from the NASD by restructuring and broadening the ownership in Nasdaq (the "Restructuring") through a two-phase private placement of securities commencing in June 2000. The principal goals of the Restructuring, among others, were to (i) raise proceeds to create a financially stronger Nasdaq better able to invest in new technologies and address competitive challenges and global opportunities, (ii) raise proceeds to support the operations of the NASD, which would remain the principal SRO responsible for the securities markets, and (iii) realign strategically the ownership of Nasdaq by enlisting a broad class of strategic investors interested in Nasdaq's long-term success. In the private placements, (i) the NASD sold (A) an aggregate of 10,806,794 warrants to purchase an aggregate amount of 43,227,176 shares of outstanding Common Stock and (B) 4,543,291 shares of outstanding Common Stock and (ii) Nasdaq sold an aggregate of 28,692,543 newly-issued shares of Common Stock. Securities in the private placements were offered to all NASD members, certain issuers listed on The Nasdaq Stock Market and certain investment companies. See "-- The Restructuring." As of November 15, 2001, the NASD beneficially owned approximately 25% of Nasdaq on a fully diluted basis, which assumes (i) the full exercise of all outstanding warrants sold by the NASD, (ii) the conversion of Nasdaq's outstanding securities that are convertible into shares of Common Stock, and (iii) the exercise of outstanding options to purchase shares of Common Stock. As of November 15, 2001, the NASD beneficially owned approximately 69% of Nasdaq on a non-diluted basis. As a result of the private placements of its Common Stock, pursuant to Section 12(g) of the Exchange Act, as of June 29, 2001, Nasdaq became subject to the reporting requirements under Sections 13, 14 and 16 of the Exchange Act of 1934, as amended (the "Exchange Act"). See "--The Restructuring."

In connection with the Restructuring, Nasdaq has filed an application with the SEC to become registered as a national securities exchange ("Exchange Registration"). In general, Exchange Registration is a change in legal status for Nasdaq as opposed to a change in the way Nasdaq operates. There is no assurance that Nasdaq's application for Exchange Registration will be granted or as to the exact timing of Exchange Registration. See"--Risk Factors--The SEC may challenge or not approve Nasdaq's plan to become a national securities exchange or it may require changes in the manner Nasdaq conducts its business before granting its approval." Information relating to Nasdaq's application can be found at the SEC's web site at <http://www.sec.gov/rules/other/34-44396.htm>. The SEC has stated that its approval of Exchange Registration is linked to the NASD's ability to provide an alternative facility to NASD members to assist in the quotation and transaction reporting of exchange-listed securities. As a registered national securities association, pursuant to the Exchange Act, the NASD is required to provide a facility and mechanisms for "collecting bids, offers, quotation sizes and aggregate quotation sizes from responsible brokers or dealers who are members of such exchange or association, processing such bids, offers and sizes, and making such bids, offers and sizes available to quotation vendors." Upon Exchange Registration, Nasdaq would no longer satisfy this requirement for the NASD. As a result, the SEC's present position appears to be that the NASD must have a quotation and transaction reporting facility for securities listed on The Nasdaq Stock Market, the New York Stock Exchange, Inc. (the "NYSE") and the American Stock Exchange LLC ("Amex") in place upon Exchange Registration. The NASD has retained a third-party vendor to assist it in the establishment of this facility and contemplates that the facility will not be operational until at least the second quarter of 2002.

Until such time as Nasdaq may obtain Exchange Registration, Nasdaq's legal authority to operate as a stock market is delegated to it by the NASD under a plan approved by the SEC (the "Delegation Plan"). Pursuant to the

Delegation Plan, the NASD must retain greater than 50% of the voting control over Nasdaq. For a more detailed discussion of Exchange Registration and certain of the related agreements between Nasdaq and the NASD, see "--The Restructuring" and "--Exchange Registration."

If Nasdaq obtains Exchange Registration it will receive its own SRO status, separate from that of the NASD. Pursuant to the Exchange Act, SROs include any recognized national securities exchange, registered securities association (of which the NASD is currently the only one), or registered clearing agency, or, for certain purposes, the Municipal Securities Rulemaking Board. In general, a SRO is responsible for regulating its members through the adoption and enforcement of rules and regulations governing the business conduct of its members. As a SRO, Nasdaq will have its own rules pertaining to its members and listed companies regarding listing, membership and trading that are distinct and separate from those rules applicable generally to broker-dealers as administered by the NASD. Broker-dealers will be able to choose to become members of Nasdaq, in addition to their other SRO memberships, including membership in the NASD. In addition, Exchange Registration will enable the NASD to achieve its stated intention to divest itself completely of an ownership interest in Nasdaq. See "--Exchange Registration" and "--Other Recent Transactions."

Whether or not Nasdaq is granted Exchange Registration is not expected to have a financial impact on Nasdaq in the short-term. In the long-term, however, Exchange Registration is expected to improve the competitive position of Nasdaq. An independent Nasdaq will have greater access to the capital markets in order to raise funds for service enhancements and the flexibility to use its Common Stock in connection with acquisitions or other strategic partnerships.

In April 2001, the Nasdaq Board of Directors (the "Nasdaq Board") approved in principle taking steps to prepare for an initial public offering ("IPO") of its Common Stock. Nasdaq's ability to consummate an IPO, and the timing of an IPO, will be determined at the Nasdaq Board's discretion and will depend on a variety of factors which may include SEC action on Nasdaq's Exchange Registration application, the progress of several important technology initiatives such as the Nasdaq Order Display Facility ("SuperMontage(sm)"), and favorable market conditions. Currently, Nasdaq does not expect to proceed with an IPO without first obtaining Exchange Registration; however, Nasdaq can proceed with an IPO without Exchange Registration if the Nasdaq Board so determines. In light of current market conditions it is not expected that an IPO of Nasdaq's Common Stock will occur in 2001. However, whether or not Nasdaq proceeds with an IPO in the near term is not expected to have a material impact on its business.

Industry Overview

Traditional stock exchanges, such as the NYSE, require that all trades in a single stock take place in a single physical location on a trading floor. At that location, a member of the exchange known as a designated dealer oversees the trading in that stock. The designated dealer has an obligation to maintain a "fair and orderly market" and acts as both a market maker and an auctioneer. Similar to any one of The Nasdaq Stock Market's market makers, the designated dealer is required to post bid and offer price quotations at all times. When interest is shown in a displayed order, the designated dealer solicits additional interest from brokers present on the floor, or for his own account. The designated dealer oversees the "order book" of orders that are routed to the floor of the NYSE. This order book has traditionally been unavailable for the public to view; however, Nasdaq's quote montage is available to the public. As a fully electronic market, The Nasdaq Stock Market itself does not have a central trading floor.

In addition to the NYSE's designated dealer, there are numerous floor brokers who negotiate larger orders face-to-face for their customers. Typically, a floor broker receives an order from a brokerage firm and then walks over to the specialist post where the stock is traded. The floor broker then negotiates with the designated dealer and any other floor brokers interested in the same stock to try to fill the order. Smaller orders on a traditional exchange are generally routed electronically to the designated dealer's order book.

Exchanges usually limit the number of their members. In order to become a member, one has to purchase a membership, called a seat, from another member who wants to sell.

Stock exchanges naturally sprang up in many cities to accommodate the needs of local investors. Advances in communication reduced the need for so many exchanges, and many of them merged with other stock exchanges in regional or national alliances. A number of regional stock exchanges still survive albeit in different form. Some of these exchanges have a few exclusive "local" stocks, but most compete in the business of trading the more active NYSE- and Nasdaq-listed stocks. Although some of the regional exchanges still have physical trading floors, for the most part their designated dealers are acting as dealers filling electronically submitted orders from retail firms. The regional exchanges include the Boston, Chicago, Cincinnati, Pacific and Philadelphia exchanges.

Regulatory and technological developments have led to gradual changes in the industry and have resulted in greater competition in the trading of securities. The emergence of alternative trading systems-a term that refers generally to internal trading systems that are designed to match buyers and sellers of securities on an agency basis and includes ECNs-has provided an additional venue for investors to transact certain trades. Nasdaq encourages the use of internal or alternative systems to trade securities and considers these systems an important component of The Nasdaq Stock Market in that they report trades through The Nasdaq Stock Market and display their best bid and offer on the market and transact on The Nasdaq

Stock Market. For the quarter ended September 30, 2001, ECNs accounted for approximately 32% of the total share volume on The Nasdaq Stock Market and approximately 37% of the total dollar volume on The Nasdaq Stock Market.

The following table sets forth information comparing the primary U.S. markets for 1996, 2000 and the nine month period ended September 30, 2001:

	For the 12 months ended December 31, 1996			For the 12 months ended December 31, 2000			For the nine months ended September 30, 2001		
	The Nasdaq Stock Market	NYSE	Amex	The Nasdaq Stock Market	NYSE	Amex	The Nasdaq Stock Market	NYSE	Amex
Total share volume (billions)	138.1	104.6	5.6	442.8	262.5	13.3	352.1	225.1	12.5
Total dollar volume (trillions)	\$3.3	\$4.1	\$0.1	\$20.4	\$11.1	\$1.0	\$8.6	\$8.0	\$0.6
Average daily share volume (billions)	0.5	0.4	0.0	1.8	1.0	0.1	1.9	1.2	0.1
Average daily dollar volume (billions)	\$13.0	\$16.0	\$0.4	\$80.9	\$43.9	\$3.8	\$46.7	\$43.4	\$3.5
Number of listed companies (at period end)	5,556	2,907	751	4,734	2,862	765	4,218	2,813	697

National Market System

Until the 1970s, each exchange acted independently to disseminate its market information on its own terms. In the 1970s, Congress passed legislation and the SEC adopted rules to create a national market system. As a result, participants in U.S. securities markets have access to a consolidated stream of quotation and transaction information from all the exchanges and The Nasdaq Stock Market (acting under the Delegation Plan) for most equity securities. The exchanges and The Nasdaq Stock Market act jointly to collect and disseminate this information under national market system plans approved by the SEC. The price and transaction information collected under these national market system plans is sold to data vendors, who in turn sell the information to the public. After costs are deducted, the revenue generated by the sale of the information to the data vendors is distributed among the participants in each of the national market system plans based on their transaction volume. The national market system plans include:

- o the Nasdaq Unlisted Trading Privileges Plan ("UTP Plan"), which collects and disseminates price and transaction information for approximately 1,000 securities listed on The Nasdaq National Market (sm). Members of the plan are the NASD and certain regional exchanges.
- o the Consolidated Quotation Plan, which collects and disseminates quotation information for securities listed on the NYSE and Amex. All of the exchanges and the NASD are members of this plan.
- o the Consolidated Tape Association Plan, which collects and disseminates transaction information for NYSE and Amex securities. All of the exchanges and the NASD are members of this plan.
- o the Intermarket Trading System, which is a communications system that allows orders to be sent to the exchange or market quoting the best price. All of the exchanges and the NASD are members of the Intermarket Trading System Plan.

Nasdaq, operating under the Delegation Plan, currently acts on behalf of the NASD in each of these plans and intends to become a member in its own right of each of these plans when and if it becomes an exchange.

Products and Services

Nasdaq's products and services fall into three principal categories:

- (1) Corporate Client Group services;
- (2) transaction services; and
- (3) market information services.

Set forth below are descriptions of each of these categories and their respective fee structures as of the date of this filing. These fees are subject to change. See "--Fee Changes."

Corporate Client Group Services. Corporate Client Group services provide information and services and products to Nasdaq-listed companies and is responsible for obtaining new listings on The Nasdaq Stock Market. The Nasdaq Stock Market is the flagship market of Nasdaq and has two tiers of listed companies. As of September 30, 2001, The Nasdaq Stock Market listed 4,218 domestic and international companies, the largest number of listings of any equity market in the world. These listings included 3,434 companies

listed on The Nasdaq National Market, and 784 smaller, emerging growth companies on The Nasdaq SmallCap Market. As of September 30, 2001, The Nasdaq Stock Market had the highest percentage of publicly traded technology and service companies in the United States and had 458 foreign companies listed, more than any other U.S. equities market, consisting of 366 foreign companies listed on The Nasdaq National Market tier and 92 on The Nasdaq SmallCap Market tier. The number of listed companies at September 30, 2001 includes those companies that may have otherwise been subject to delisting if not for a temporary suspension of certain listing standards effective as of September 26, 2001, as discussed below.

From January 1, 1996 through September 30, 2001, 2,367 IPOs, approximately 84% of all IPOs on primary U.S. markets during this period, listed on The Nasdaq Stock Market. These IPOs raised over \$166 billion, approximately 45% of the total dollar value raised in U.S. IPOs during this period. Of all U.S. IPOs during the year ended December 31, 2000, 397 companies, approximately 88% of U.S. IPOs during this period, listed on The Nasdaq Stock Market. These IPOs raised over \$52.5 billion, approximately 47% of the total dollar value raised in U.S. IPOs during this period. Of all the U.S. IPOs in the nine months ended September 30, 2001, 39 companies, approximately 60% of U.S. IPOs during this period, listed on The Nasdaq Stock Market. These IPOs raised over \$5.7 billion, approximately 19% of the total dollar value raised in U.S. IPOs during this period. The reduction in The Nasdaq Stock Market's percentage of U.S. IPOs during the first nine months of 2001 reflects a decline in general market and economic conditions, which have impacted the ability of traditional growth companies to access the public equity markets. In addition, during this period there has been an increased number of IPOs of companies being spun-off from already public parent companies that, in general, have not operated in traditional growth industries. During the first nine months of 2001, these spin-offs accounted for 15% of all U.S. IPOs and approximately 56% of the total dollar value raised in all U.S. IPOs during this period. Of the 10 spin-offs during this period, nine of the spin-offs were subsidiaries of NYSE-listed companies, six of which also listed on the NYSE. In comparison, during the first nine months of 2000, the number of IPO spin-offs from public companies accounted for only 5% of all U.S. IPOs and approximately 14% of the total dollar value raised in U.S. IPOs during this period.

Over 72% of all the IPOs that have listed on The Nasdaq Stock Market from January 1, 1996 through September 30, 2001 have listed on The Nasdaq National Market and the remaining companies have listed on The Nasdaq SmallCap Market.

The Nasdaq Stock Market's overall number of listings has declined from a high of 5,556 listings at December 31, 1996 to 4,218 listings at September 30, 2001. During this period, the net number of listings on The Nasdaq National Market has declined by 713 and the net number of listings on The Nasdaq SmallCap Market has declined by 625. However, despite the decline in the number of listings, the total number of shares outstanding on The Nasdaq Market has increased from approximately 76.2 billion (approximately 64.7 billion of which were outstanding on The Nasdaq National Market) at December 31, 1996 to approximately 160.9 billion (approximately 152.6 billion of which were on The Nasdaq National Market) at September 30, 2001.

Companies cease being listed on The Nasdaq Stock Market for three primary reasons: (i) the failure to meet The Nasdaq Stock Market's listing standards, in particular, the more rigorous listing standards instituted in 1997, (ii) the consolidation of listings due to merger and acquisition activity, and (iii) Nasdaq-listed companies switching their listing to another market, such as the NYSE or Amex. See "--Competition--Corporate Client Group Services." The 1997 implementation of more rigorous listing standards included an increase in the minimum requirements for an issuer's net tangible assets, market capitalization and net income, an increase in the minimum bid price requirement, an increase in the number of market makers required for an issuer's security and the imposition of more stringent corporate governance standards. From January 1, 1996 through September 30, 2001, an aggregate of 4,221 issuers have ceased being listed on The Nasdaq Stock Market. Of these 4,221 issuers, 2,063 issuers on The Nasdaq Stock Market have been delisted by Nasdaq for failure to satisfy listing standards (primarily the failure to satisfy the minimum bid requirement), 1,674 issuers on The Nasdaq Stock Market have ceased being listed due to mergers and consolidations, and 484 companies ceased being listed as a result of switches to a competing market.

For the year ended December 31, 2000, 486 issuers ceased being listed on The Nasdaq National Market and 164 issuers ceased being listed on The Nasdaq SmallCap Market. One hundred twenty-eight issuers on The Nasdaq National Market and 112 issuers on The Nasdaq SmallCap Market were delisted by Nasdaq for failure to satisfy listing standards; 320 issuers on The Nasdaq National Market and 40 issuers on The Nasdaq SmallCap Market were delisted due to mergers and consolidations; and 38 issuers on The Nasdaq National Market and 12 issuers on The Nasdaq SmallCap Market ceased being listed as a result of switches to a competing market. For the nine months ended September 30, 2001, 382 issuers ceased being listed on The Nasdaq National Market and 195 issuers ceased being listed on The Nasdaq SmallCap Market. One hundred seventy-five issuers on The Nasdaq National Market and 162 issuers on The Nasdaq SmallCap Market were delisted by Nasdaq for failure to satisfy listing standards; 180 issuers on The Nasdaq National Market and 33 issuers on The Nasdaq SmallCap Market were delisted due to mergers and consolidations; and 27 issuers on The Nasdaq National Market ceased being listed as a result of switches to a competing market.

The Nasdaq Stock Market has historically attracted traditional growth companies and, as of September 30, 2001, it was home to the highest percentage of publicly-traded technology and service companies in the U.S. See "--Nasdaq Overview." From January 1, 1996 through September 30, 2001, 3,069 new companies listed on The Nasdaq Stock Market, 2,471 on The Nasdaq National Market and 598 on The Nasdaq SmallCap Market. For the year ended

December 31, 2000, 579 new companies listed on The Nasdaq Stock Market, 485 on The Nasdaq National Market and 94 on The Nasdaq SmallCap Market. For the nine months ended September 30, 2001, 101 new companies have listed on The Nasdaq Stock Market, 80 on The Nasdaq National Market and 21 on The Nasdaq SmallCap Market.

A company must meet all of the requirements under at least one of three listing standards, as summarized below, for initial listing on The Nasdaq National Market and must meet at least one continued listing standard below to maintain its listing:

Requirements	Initial Listing			Continued Listing	
	Standard 1	Standard 2	Standard 3	Standard 1	Standard 2
Stockholders' Equity	\$15 million	\$30 million	N/A	\$10 million	N/A
Market Capitalization	N/A	N/A	\$75 million or	N/A	\$50 million or
Total Assets			\$75 million and		\$50 million and
Total Revenue			\$75 million		\$50 million
Pretax Income (in latest year or 2 of last 3 years)	\$1 million	N/A	N/A	N/A	N/A
Public Float (shares)	1.1 million	1.1 million	1.1 million	0.75 million	1.1 million
Operating History	N/A	2 years	N/A	N/A	N/A
Market Value of Public Float*	\$8 million	\$18 million	\$20 million	\$5 million	\$15 million
Minimum Bid Price*	\$5	\$5	\$5	\$1	\$3
Shareholders (round lot holders)	400	400	400	400	400
Market Makers	3	3	4	2	4
Corporate Governance	Yes	Yes	Yes	Yes	Yes

* Effective September 26, 2001, Nasdaq has suspended the application of this requirement for continued listings only, until January 2, 2002. (See discussion below)

For initial and continued listing on The Nasdaq SmallCap Market, a company must meet the list of requirements summarized below:

Requirements	Initial Listing	Continued Listing
Stockholders' Equity	\$5 million or	\$2.5 million or
Market Capitalization	\$50 million or	\$35 million or
Net Income (in last fiscal year or 2 of last 3 fiscal years)	\$0.75 million	\$0.5 million
Public Float (shares)	1 million	0.5 million
Market Value of Public Float*	\$5 million	\$1 million
Minimum Bid Price*	\$4	\$1
Shareholders (round lot holders)	300	300
Operating History	1 year or	N/A
Market Capitalization	\$50 million	

Market Makers	3	2
Corporate Governance	Yes	Yes

* Effective September 26, 2001, Nasdaq has suspended the application of this requirement for continued listings only, until January 2, 2002. (See discussion below)

As used in the tables above, "Public Float" refers to those shares that are not directly or indirectly held by any officer or director of the issuer or any beneficial owner of more than 10 percent of the total number of shares outstanding, and "Shareholders" is defined as a holder of 100 shares or more.

In response to the general economic and market uncertainty after the terrorist attacks on the United States on September 11, 2001, effective as of September 26, 2001, Nasdaq formally suspended until January 2, 2002 two requirements for continued listing on both The Nasdaq National Market and The Nasdaq SmallCap Market. The two requirements are (1) minimum bid price, and (2) market value of public float. All issuers that were under review or in the hearings process for either of these requirements were taken out of the deficiency review process with respect to these requirements. The suspension had an immediate impact on 209 issuers--159 on The Nasdaq National Market and 50 on The Nasdaq SmallCap Market. In addition to these 209 issuers, 47 issuers on The Nasdaq National Market and 30 issuers on The Nasdaq SmallCap Market, while deficient in the minimum bid price and/or market value of public float requirements, were also deficient in another requirement. As such, these 77 issuers remained in the deficiency review process.

The rules governing issuers on The Nasdaq Stock Market require that issuers whose securities fall below the minimum bid price or fail to meet the market value of public float requirement for 30 consecutive business days are given a 90 day grace period to regain compliance. An issuer may demonstrate compliance by meeting the applicable standard for a minimum of 10 consecutive business days. Issuers that fail to regain compliance within the 90-day grace period are subject to delisting. In general, an issuer may, upon receipt of a written determination from Nasdaq that it does not qualify for initial or continued listing, request a hearing before a Listing Qualifications Panel (the "Panel"), an independent panel composed of at least two persons who are not employees of Nasdaq or its affiliates. The request for a hearing stays the delisting action until the issuance of a written determination from the Panel. An issuer may request review of the Panel's decision by the Nasdaq Listing and Hearing Review Council (the "Council"), a committee of eight to 18 members appointed by the Nasdaq Board. No more than 50% of the Council's members may be engaged in market-making activity or employed by an NASD member whose revenues from market-making activity exceed 10% of its total revenues. The Council also must include non-industry members, i.e., representatives of issuers on The Nasdaq Stock Market or individuals who have no material business relationship with a broker-dealer, Nasdaq, or its affiliates. A request for such review does not operate as a stay of the Panel's decision. The Council will consider the written record and may, in its discretion, hold additional hearings. The Council will then issue a written decision affirming, modifying, reversing the Panel's decision, or referring the matter for further consideration. An issuer may appeal the final decision regarding its status to the SEC pursuant to Section 19 of the Exchange Act.

Nasdaq charges issuers an initial listing fee, a listing of additional shares ("LAS") fee, and an annual fee. The initial listing fee for securities listed on The Nasdaq National Market or The Nasdaq SmallCap Market includes a one-time listing application fee of \$5,000 and a total shares outstanding fee. The total maximum fee for the initial listing application is \$95,000 for The Nasdaq National Market and \$10,000 for The Nasdaq SmallCap Market. The estimated service period for initial listing fees is six years. For the years ended December 31, 2000, 1999 and 1998, Nasdaq's revenues from initial listing fees were \$33.9 million, \$27.4 million and \$23.8 million, respectively. Revenue figures for 1999 and 1998 are pro forma, assuming a retroactive application of the 2000 change in accounting principle. See "Item 2. Financial Information--Selected Consolidated Financial Data," "--Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Consolidated Financial Statements--Note 4." Nasdaq's initial listing fee revenues accounted for approximately 4.1% of Nasdaq's total revenues for the year ended December 31, 2000. For the nine months ended September 30, 2001, Nasdaq's initial listing fee revenues were \$27.6 million, which accounted for approximately 4.3% of Nasdaq's total revenues for the period.

The fee for LAS is based on the total shares outstanding, which Nasdaq reviews quarterly. The current fee is \$2,000 beginning after the company has issued 49,999 additional shares per quarter, or \$.01 per additional share, whichever is higher, up to a maximum of \$22,500 per quarter and an annual maximum of \$45,000. The estimated service period for LAS fees is four years. For the years ended December 31, 2000, 1999 and 1998, Nasdaq's revenues from LAS fees were \$33.6 million, \$30.0 million and \$28.1 million, respectively. Revenue figures for 1999 and 1998 are pro forma, assuming a retroactive application of the 2000 change in accounting principle. See "Item 2. Financial Information--Selected Consolidated Financial Data," "--Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Consolidated Financial Statements Note 4." Nasdaq's LAS fee revenues accounted for approximately 4.0% of Nasdaq's total revenues for the year ended December 31, 2000. For the nine months ended September 30, 2001, Nasdaq's LAS fee revenues were \$26.6 million, which accounted for approximately 4.1% of Nasdaq's total revenues for the period.

Annual fees for securities listed on The Nasdaq National Market are based on total shares outstanding and range from \$10,710 to \$50,000. The annual fee for securities listed on The Nasdaq SmallCap Market is \$4,000 for the first class of securities and \$1,000 for each additional class of securities. For the years ended December 31, 2000, 1999 and 1998, Nasdaq's revenues from all annual listing and other Corporate Client Group fees were \$81.8 million, \$78.9 million and \$79.3 million, respectively. Nasdaq's annual listing fees and other Corporate Client Group services revenues accounted for approximately 9.8% of Nasdaq's total revenues for the year ended December 31, 2000. For the nine months ended September 30, 2001, Nasdaq's annual listing fees and other Corporate Client Group services revenues were \$61.6 million, which accounted for approximately 9.6% of Nasdaq's total revenues for the period.

In October 2001, Nasdaq filed with the SEC a proposed rule change to increase listing related fees beginning January 1, 2002. See "--Fee Changes."

Following the initial listing, Nasdaq provides information services, products and programs to Nasdaq-listed companies. Executives of Nasdaq-listed companies are invited to participate in a variety of programs on a wide range of topics, such as industry sector-specific seminars and investor relation forums. These executives also have access to Nasdaq Online(sm), a strategic planning tool provided free of charge to Nasdaq-listed companies that was rated number one in a recent survey of the top 10 favorite investor relations web sites by the National Investor Relations Institute. Nasdaq Online presents market data on all U.S. traded companies and real-time quotes for Nasdaq-listed stocks, as well as information on institutional ownership, research coverage and performance ratios. This combination of on-line real time data and analytical information, along with a series of other seminars and programs, is designed to help management of listed companies make better equity management decisions. See "--Strategic Initiatives--Developing a Corporate Client Center."

Each listed company is assigned a Corporate Client Group director who oversees the listed company's relationship with Nasdaq. A schedule of calls and visits along with invitations to various industry and market forums are used to enhance customer satisfaction, keep companies informed of new developments at Nasdaq, and discuss the benefits of a listing on The Nasdaq Stock Market. Nasdaq also has created a program to educate investment bankers, capital market dealers, institutional investors, and other constituencies that influence listing decisions.

For the years ended December 31, 2000, 1999 and 1998 Nasdaq's total revenues from Corporate Client Group services were \$149.3 million, \$136.4 million and \$131.3 million, respectively. Corporate Client Group services accounted for approximately 17.9% of Nasdaq's total revenues for the year ended December 31, 2000. Revenue figures for 1999 and 1998 are pro forma, assuming the retroactive application of the 2000 change in accounting principle. See "Item 2. Financial Information--Selected Consolidated Financial Data", "--Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Consolidated Financial Statements Note 4." For the nine months ended September 30, 2001, Corporate Client Group services revenues were \$116.5 million, which accounted for approximately 18.2% of Nasdaq's total revenues for the period.

Transaction Services. Transaction services are the core set of products designed to provide market participants with price discovery tools supported by the Enterprise Wide Network II communications network and the Nasdaq Workstation II. As part of its price discovery function, Nasdaq provides collection, processing and dissemination of price quotations of Nasdaq-listed securities to its market participants. Price quotations are made up of two parts-the bid and the offer. The bid is the displayed price at which the quoting market maker or ECN is prepared to buy the security from any seller in the marketplace. The offer is the displayed price at which the quoting market maker or ECN is prepared to sell the security to any buyer in the marketplace. Since market makers and ECNs may wish to pay differing amounts to buy or sell a particular security, Nasdaq looks at all the price quotations of the market makers and ECNs in that security and independently ranks the bids and offers so that one can easily determine the one who is willing to sell the security for the lowest price and the one who is willing to buy the security at the highest price. This combination of the best bid and the best offer is the "inside market" or "inside quote." Included in the price quotations collected by Nasdaq are the quotes of the exchanges that trade Nasdaq-listed securities under the UTP Plan. As of November 8, 2001, the Chicago Stock Exchange, the Cincinnati Stock Exchange, and the Boston Stock Exchange display quotes on The Nasdaq Stock Market pursuant to the UTP Plan.

Once price quotations have been entered into the Nasdaq system, Nasdaq processes the price quotations by updating the posted price and size (i.e., number of shares the posting party will buy or sell at that price) in response to messages received from the party posting the price quotation. Only registered market makers, ECNs and UTP Plan exchanges have the ability to adjust their price and size quotations in the Nasdaq system.

In addition to quotations in Nasdaq-listed securities, Nasdaq also collects and disseminates quotations in securities authorized for trading on the OTC Bulletin Board Service(R) ("OTC Bulletin Board") as well as exchange-listed securities that are traded in the over-the-counter market by NASD members. See "--Other Markets--Nasdaq InterMarket" and "--OTC Bulletin Board."

Nasdaq's primary transaction services include (i) Order Routing and Execution, (ii) Trade Reporting and Comparison and (iii) Access Services.

Order Routing and Execution. Historically, orders for Nasdaq-listed stocks were communicated via the telephone. However, advances in technology made

routing of orders with electronic systems prevalent. Since the late 1980s, Nasdaq has provided electronic routing of buy and sell orders for Nasdaq-listed stocks to and from a market maker or ECN and the execution of those orders through the use of automated systems. Order routing and execution are the terms generally used to describe how orders to buy and sell securities are directed to market participants as well as how these orders are handled once they reach their destination. Order routing refers to the act of transmitting orders to another market participant for action. Order execution is a legally binding step in which orders are executed, or responded to, once received by a market participant. During the last few years Nasdaq has experienced increased usage of its electronic order routing and execution systems. Approximately 27.0% of Nasdaq's share volume (based on the aggregate number of shares traded) comes from orders routed and executed using a Nasdaq system. The remaining 73.0% comes from internal or alternative trading systems.

Nasdaq has the following systems that provide for order routing and/or execution:

- o The Nasdaq National Market Execution System (also known as "SuperSoes(sm)") is a new, improved system for the execution of buy and sell orders designed to provide automatic execution capability for market makers, ECNs and all their institutional and retail customers, and streamline Nasdaq's transaction systems. The SuperSoes system is only available for securities listed on The Nasdaq National Market. Securities listed on The Nasdaq SmallCap Market will continue to be traded through the Small Order Execution System ("SOES(sm)") and SelectNet (which are described below). SuperSoes was fully implemented on July 30, 2001. SuperSoes combines features of the existing SelectNet and SOES. Like SOES, SuperSoes permits the automatic execution of trades against the best price quotations of other market participants in The Nasdaq National Market without the need for an agreement to trade from the party providing the price quotation. SuperSoes also relaxes the usage restrictions of SOES, including the share size restriction. This system allows the entry of single orders of up to 999,999 shares as opposed to the SOES limit of 1,000 shares. In addition, the time delay between executions of trades with the same market maker at the same price for a single security is eliminated.

SuperSoes is designed to encourage market participants to make more shares available for trading. Using the system's reserve size feature, market makers can enter both a displayed share amount and an un-displayed "reserve" size number of shares at the same price. Other market participants see only the displayed number of shares. However, if an order that is routed through the system is of a size that would execute more than all of the displayed quantity of shares, the system will also automatically execute the remainder against the hidden reserve shares. This capability is important to market makers because many are reluctant to post a price quotation for a large number of shares. Such a quotation can cause other traders to quickly adjust their price quotations knowing that the market maker, or the market maker's customer, has a large amount of shares to buy or sell. The reserve size feature allows market makers to limit the price impact of displaying a large amount of shares while still making these shares available for trading in the market.

SuperSoes' restrictions on the use of SelectNet are designed to prevent the situation that occurred previously (as described below) in which a market maker's price quotation could be accessed by both SOES and SelectNet at the same time, resulting in the automatic execution of the trade on SOES and the receipt of a SelectNet message obligating the market maker to trade such shares. The result of this process was that the market maker became obligated to trade a number of shares greater than the number for which it had made a price quotation. To remedy this problem of the market maker's liability to two trading systems, the rules of SuperSoes are designed to ensure that all market participants are obligated to trade only in response to orders received from one system. Nasdaq believes that by eliminating the potential for unintended trade obligations, it will encourage market makers to commit more shares to the market. The fees for SuperSoes as of November 1, 2001, to be paid by the originating party, are as follows:

- o Order entry charge: \$0.10 per order entry
- o Order execution charge: \$0.002 per share executed
- o Cancellation fee: \$0.25 per order cancelled

As of November 1, 2001, Nasdaq will rebate a portion of its per share execution fees received to market participants in certain circumstances.

For the nine months ended September 30, 2001, Nasdaq's total revenues from SuperSoes, which was implemented on July 30, 2001, accounted for less than 2% of Nasdaq's

total revenues for the period.

- o SelectNet is an automated Nasdaq market service that facilitates order execution by linking all market participants that trade Nasdaq-listed stocks. Prior to the implementation of SuperSoes, SelectNet was the primary system that market makers used to trade with one another. It is also the Nasdaq system used to access ECN price quotations and through which ECNs receive the price quotations of other market makers. SelectNet operates as a messaging system, allowing market participants to direct an order message to a particular counter-party or to broadcast such an order to all market participants offering to buy or sell a security at a particular or market price. If the order routed via SelectNet and the posted price quotation to which the order is directed are of a price and size such that a trade should take place, SEC and NASD rules generally require the party making the price quotation to respond through SelectNet agreeing to the trade. Once the poster of the price quotation sends its agreement to the trade back to the party directing the order, the trade is executed and both parties receive a confirmation of the transaction. SelectNet is available for use by all market participants and also provides the capability for users to independently negotiate the terms of trades.

With the implementation of SuperSoes, SelectNet becomes primarily a tool to be used by market makers to negotiate trades. Market makers are now prohibited from sending each other SelectNet messages that obligate the receiving party to a trade. However, market makers that wish to trade with ECNs still have the ability to send SelectNet order messages that require an agreement to trade from the ECN using SelectNet prior to execution of the trade. ECNs also have the option to use SuperSoes to elect to receive automatic executions against their price quotations, unlike market makers who are mandated to provide automatic executions against their price quotation. If ECNs so elect, they are protected from receiving SelectNet order messages priced and sized in a manner that would obligate the ECN to a trade in response to the SelectNet order message.

The current fees for SelectNet are as follows: (i) \$0.10 per order entry, (ii) a \$0.90 activity fee for the originating party (i.e., the sender) for directed orders executed on a non-liability basis (i.e., by the market participants, primarily market makers, that are not obligated to execute the order), (iii) for orders executed on a liability basis (i.e., by market participants, primarily ECNs and ATSS, that are obligated to execute the orders), the activity fees for the originating party are as follows: \$0.90 per trade for the first 25,000 executions in a month, \$0.60 per trade for the next 25,000 trades in a month, \$0.10 per trade for the next 200,000 trades in a month and no charge for any additional trades in the month, (iv) a \$0.25 fee for cancelled orders, and (v) for broadcast orders, \$2.50 per side of an executed order. For the years ended December 31, 2000, 1999 and 1998 Nasdaq's total revenues from SelectNet were \$113.5 million, \$83.1 million and \$42.4 million, respectively. SelectNet accounted for approximately 13.6% of Nasdaq's total revenues for the year ended December 31, 2000. For the nine months ended September 30, 2001, Nasdaq's total revenues from SelectNet were \$75.9 million, which accounted for approximately 11.8% of Nasdaq's total revenues for the period.

- o SOES routes small orders of public customers to market makers and, based on their quotes, immediately executes trades without a formal response from the market maker. The SOES system is restricted to orders of no greater than 1,000 shares and cannot be used by market makers for their own trading activity. As of August 1, 2001, SOES is only available to trade securities listed on The Nasdaq SmallCap Market. It is also not available to access ECN price quotations or for ECNs to receive the price quotations of other market participants. Unlike SelectNet, a trade on SOES is executed without the requirement for the party providing the price quotation to respond with an agreement to trade. After execution, the party providing the price quotation is informed by SOES that a trade has been executed and sent to settlement. Under current NASD rules, all market makers that provide price quotations for a security listed on The Nasdaq National Market must participate in SOES and consent to its automatic executions. If a market maker has posted the best price quotation to buy or sell a security and has posted a share size amount that would satisfy multiple SOES orders, the system automatically delays 17 seconds between the delivery of each SOES execution to give the market maker an opportunity to adjust its price quotation to a new level. The current fees for SOES, to be paid by the originating party, are as follows:

- o \$0.50 per trade for the first 150,000 trades in a month
- o \$0.30 per trade for all additional trades
- o \$0.25 per cancellation

SOES accounted for approximately 3.9% of Nasdaq's total revenues for the year ended December 31, 2000 and approximately 3.4% of Nasdaq's total revenues for the nine months ended September 30, 2001.

- o Advanced Computerized Execution System ("ACES"), is an order routing service that is used by market makers to execute order flow from order entry firms. Order entry firms generally route buy and sell orders to the best price quotes displayed in the market or enter into agreements with a particular market maker where the market maker agrees to fill the order entry firm's orders at the best price displayed in the market. Order entry firms can route buy and sell orders directly to specified market makers through Nasdaq Workstation II or their own proprietary systems. These orders are executed within the market makers' internal trading systems and execution reports are routed back to the order entry firms. ACES is often used by market makers to connect with firms whose order volume is too low to justify the fixed costs of establishing a proprietary network linkage. The current fee for ACES, charged to the market maker only, is a \$0.70 activity fee per execution for the first 25,000 executions in a month, \$0.50 per execution for the next 25,000 executions and \$0.10 per execution for all additional executions. ACES accounted for approximately 2.1% of Nasdaq's total revenues for the year ended December 31, 2000 and approximately 1.0% of Nasdaq's total revenues for the nine months ended September 30, 2001.
- o Computer Assisted Execution System(sm) ("CAES(sm)") is the transaction service system for Nasdaq InterMarket, which is an electronic marketplace where NASD members can trade securities listed on the NYSE or Amex. CAES is linked to the Intermarket Trading System. CAES allows users to direct orders in exchange-listed securities to other Nasdaq InterMarket market makers for automated response and execution, and also provides access to the Intermarket Trading System. The Intermarket Trading System is a communications system that allows exchange-designated dealers, exchange floor brokers and NASD members to send orders for execution to the market quoting the best price. Access to both systems (CAES/Intermarket Trading System) costs Nasdaq InterMarket participants \$100 per month, per terminal. The current fee for CAES orders is \$0.50 for the originating party (i.e., the sender). CAES and Intermarket Trading System fees accounted for less than 1% of Nasdaq's total revenues for both the year ended December 31, 2000 and for the nine months ended September 30, 2001.

For the years ended December 31, 2000, 1999, and 1998, Nasdaq's total revenues from Order Routing and Execution were \$170.3 million, \$125.3 million, and \$69.5 million, respectively. Order Routing and Execution fees accounted for approximately 20.5% of Nasdaq's total revenues for the year ended December 31, 2000. For the nine months ended September 30, 2001, Nasdaq's total revenues from Order Routing and Execution were \$117.2 million, which accounted for approximately 18.3% of Nasdaq's total revenues for the period.

In March 2000, Nasdaq entered into an agreement with Primex Trading N.A., LLC to provide investors and market makers with a new electronic trading platform. The new system is expected to allow users to seek price improvement opportunities for their customers' orders by electronically exposing them to market participants who compete for the orders based on price within the context of the best quotes publicly displayed. The technology will be offered exclusively on The Nasdaq Stock Market and is scheduled to launch in early 2002.

Trade Reporting and Comparison--Automated Confirmation Transaction Service(sm) ("ACT(sm)"). U.S. securities laws require that all registered stock exchanges and securities associations establish a transaction reporting plan by which price and volume information concerning trades executed in qualified securities in those markets is centrally collected. Transactions in Nasdaq-listed securities, exchange-listed securities traded over-the-counter, and other equity securities traded over-the-counter are reported to ACT. A protocol establishes which of the two parties to the trade are assigned reporting responsibility. During market open hours, market participants are to report trades within 90 seconds. Alternative procedures are in place for reporting trades executed after hours. ACT has a schedule of fees that reflect the services it provides. Trade reports are assessed a nominal fee, while trades that require comparison matching generally are assessed a higher fee depending upon the size of the trade. The function that ACT performs depends on the information provided to ACT by the parties to the trade. ACT risk management fees are \$17.25 per month plus \$0.035 for each correspondent per transaction. A cap on ACT risk management fees was implemented in April 2000, limiting the monthly payment by clearing firm by correspondent to \$10,000. This led to over a \$1 million decrease in ACT risk management revenue from fiscal year 1999 to fiscal

year 2000 despite the significantly higher trading volumes in the year 2000. Further changes to the pricing structure currently under consideration might have additional downward effect on ACT revenues. In a current filing with the SEC, Nasdaq proposes an interpretation of which firms classify as effectively "self-clearing" with respect to affiliated correspondents, and relieves them of the obligation of paying ACT risk management fees. Nasdaq is contemplating a further clarification to this rule, which would require SEC approval and which specifies that clearing firms will only be charged ACT risk management fees for those correspondents they choose to monitor through ACT risk management. This means that firms will selectively have the ability to discontinue the use of this service for certain correspondents and not pay ACT risk management fees, thus reducing Nasdaq's revenue.

For the years ended December 31, 2000, 1999 and 1998 Nasdaq's total revenues from ACT were \$100.0 million, \$68.1 million and \$38.2 million, respectively. ACT fees accounted for approximately 12.0% of Nasdaq's total revenues for the year ended December 31, 2000. For the nine months ended September 30, 2001, Nasdaq's total revenues from ACT were \$65.6 million, which accounted for approximately 10.2% of Nasdaq's total revenues for the period.

Access Services. The vast majority of Nasdaq's transaction services are delivered via the Enterprise Wide Network II telecommunications network, which was jointly designed by Nasdaq and WorldCom Inc. In November 1997, Nasdaq committed to a six-year, \$600 million dollar contract for WorldCom Inc. to build and maintain the Enterprise Wide Network II, a custom extranet to expand Nasdaq's daily trading capacity to four billion shares a day, with the capability of scaling up to eight billion shares a day. The Enterprise Wide Network II is one of the world's largest and most sophisticated information systems, delivering time-sensitive information from Nasdaq's Trumbull, Connecticut technology center to traders nationwide and giving Nasdaq sophisticated routing and information collection capabilities. WorldCom charges Nasdaq monthly for use of the network. The contract with WorldCom will automatically renew for successive renewal periods without the prior termination by a party. In the event of termination, the contract provides that the services will continue for a sufficient time to allow for a smooth transition. The technology and services provided by WorldCom are available to Nasdaq through a variety of alternative sources. Pursuant to the contract, WorldCom is not prevented from providing the same network services it provides to Nasdaq to third parties.

The Enterprise Wide Network II employs technology that is designed to ensure delivery of information to market participants without delay. This technology provides market participants with simultaneity; that is, absolutely equal access to the information they need to make trading decisions. Thus, response times and the ability to enter quotes, make trades, and see changes in the market is identical for all market participants. With simultaneity, Nasdaq is able to provide the same high level of service to investors and traders across a wide geographic range, which includes the continental United States, and parts of Canada.

Users connect to the Enterprise Wide Network II through a Nasdaq Workstation II or a workstation replacement developed using Nasdaq's application program interface. Connections to the Enterprise Wide Network II use two separate communications lines, so that if there is a failure on one line, messages are routed through the backup line. The Enterprise Wide Network II data center is located in Trumbull, Connecticut, with a backup facility in Rockville, Maryland.

The Enterprise Wide Network II is presently capable of handling a four billion share-trading day. The architecture of the network is designed so that resources can be added to the infrastructure to allow for higher levels of traffic as Nasdaq continues to grow. Since the introduction of the Enterprise Wide Network II in August 1999, the capacity of the network has been doubled to meet growing market demand. Trade reporting, SOES trades and the distribution of market data to vendors is accomplished through separate networks, which are now being integrated with the Enterprise Wide Network II.

Introduced in 1995, Nasdaq Workstation II is a proprietary operating system for the Enterprise Wide Network II. This operating system gives securities traders access to a centralized processing complex, which provides quotation service, automated trade executions, real-time reporting, trade negotiations, and clearing. Nasdaq's trading terminals are now on the desks of approximately 10,000 users. With Nasdaq Workstation II, traders are immediately connected to the Enterprise Wide Network II. Nasdaq Workstation II employs advanced Windows(R) technology to create a fast, flexible, and convenient trading environment running on a variety of platforms that can be integrated with most in-house systems. An application programming interface allows approximately 2,700 users currently to customize Nasdaq Workstation II to meet their own presentation needs. A member firm can use their own computer to perform these functions. Customers include market makers, order entry firms, ECNs and UTP Plan exchanges. Services are distributed through sophisticated computers and high-speed telecommunications networks. Customers are invoiced for the Enterprise Wide Network II connection and their respective logins. For the years ended December 31, 2000, 1999 and 1998, Nasdaq's total revenues from Nasdaq Workstation II were \$121.6 million, \$87.6 million and \$49.3 million, respectively. Nasdaq Workstation II fees accounted for approximately 14.6% of Nasdaq's total revenues for the year ended December 31, 2000. For the nine months ended September 30, 2001, Nasdaq's total revenues from Nasdaq Workstation II were \$111.6 million, which accounted for approximately 17.4% of Nasdaq's total revenues for the period.

In addition to the Nasdaq Workstation II application program interface, Nasdaq provides a Computer-to-Computer Interface ("CTCI") for users to

report trades, enter orders into SuperSoes and receive execution messages. The CTCI links Nasdaq to automated firm systems via an x.25 protocol. Nasdaq is currently transitioning CTCI users to a TCP/IP protocol at line speeds of up to 1,536kbs. CTCI revenues accounted for less than 1% of Nasdaq's total revenues for the year ended December 31, 2000 and less than 2% of Nasdaq's total revenues for the nine months ended September 30, 2001.

For the years ended December 31, 2000, 1999, and 1998, Nasdaq's total revenues from Access Services were \$124.8 million, \$90.3 million, and \$52.8 million, respectively. Access Services fees accounted for approximately 15.0% of Nasdaq's total revenues for the year ended December 31, 2000. For the nine months ended September 30, 2001, Nasdaq's total revenues from Access Services were \$123.0 million, which accounted for approximately 19.2% of Nasdaq's total revenues for the period.

For the years ended December 31, 2000, 1999 and 1998 Nasdaq's total revenues from transaction services were \$395.1 million, \$283.7 million and \$160.5 million, respectively. Transaction services accounted for approximately 47.4% of Nasdaq's total revenues for the year ended December 31, 2000. For the nine months ended September 30, 2001, Nasdaq's total revenues from transaction services were \$305.8 million, which accounted for approximately 47.7% of Nasdaq's total revenues for the period.

Market Information Services. As a market operator, Nasdaq collects and disseminates price quotations and information regarding price and volume of executed trades. Market participants in The Nasdaq Stock Market have real-time access to quote and trade data. Interested parties that are not direct market participants in The Nasdaq Stock Market also can receive real-time information through a number of market information services products.

Nasdaq has two primary market information services products designed to provide the varying levels of detail desired by different broker-dealers and their customers. The first product is called Level 1. This product provides subscribers with the current inside quote and most recent price at which the last sale or purchase was transacted for a specific security. Professional subscribers, e.g., broker-dealers and other employees of broker-dealers, to this product currently pay \$20 per terminal per month for the service, which is typically delivered to the subscriber through a third-party data vendor. A vendor or a broker-dealer can provide non-professional customers, i.e., individual investors, with Level 1 information at a reduced fee calculated on a per query basis of \$.005 with a cap of \$1 per month per user. The growth in on-line investing has increased the usage of these fee structures by on-line brokerage firms and other Internet services.

For the years ended December 31, 2000, 1999 and 1998, Nasdaq's revenues from Level 1 fees were \$159.6 million, \$135.0 million and \$107.3 million, respectively. Nasdaq's Level 1 fees accounted for approximately 19.2% of Nasdaq's total revenues for the year ended December 31, 2000. For the nine months ended September 30, 2001, Nasdaq's total revenues from Level 1 were \$105.1 million, which accounted for approximately 16.4% of Nasdaq's total revenues for the period.

The second data product, the Nasdaq Quotation Dissemination Service, provides subscribers with the quotes of each individual market maker and ECN, in addition to the inside quotes and last transaction price. This service is currently priced at \$50 per terminal per month for professional subscribers and \$10 per terminal per month for non-professional customers. This service is not priced on a per query basis. Professional subscribers can also access historical data via a subscription to Nasdaq Trader, a non-UTP Plan product. For the years ended December 31, 2000, 1999 and 1998, Nasdaq's revenue from Nasdaq Quotation Dissemination Service fees were \$74.8 million, \$32.5 million and \$21.2 million, respectively. Nasdaq's Quotation Dissemination Service fees accounted for approximately 9.0% of Nasdaq's total revenue for the year ended December 31, 2000. For the nine months ended September 30, 2001, Nasdaq's total revenues from Nasdaq's Quotation Dissemination Service fees were \$45.8 million, which accounted for approximately 7.1% of Nasdaq's total revenues for the period.

In addition, Nasdaq serves as a securities information processor ("SIP") for purposes of collecting and disseminating quotation and last sale information for all transactions effected on The Nasdaq Stock Market. In creating the national market system, Congress intended for participants in U.S. securities markets to have access to a consolidated stream of quotation and transaction information for the exchanges and The Nasdaq Stock Market. To accomplish this objective, SIPs consolidate information with respect to quotations and transactions in order to increase information availability and thus create the opportunity for a more transparent and effective market. Nasdaq is the exclusive SIP pursuant to the UTP Plan. Under the UTP Plan, each participant can choose up to 1,000 securities from among The Nasdaq National Market securities from which to quote and trade, and Nasdaq collects quotation and last sale information from competing exchanges (currently the Boston Stock Exchange, the Chicago Stock Exchange and the Cincinnati Stock Exchange) and consolidates such information with the information for all the securities listed on The Nasdaq Stock Market. Nasdaq sells this information to vendors for a fee ("Tape Fees"), and the data vendors in turn sell the last sale and quotation data publicly. Under the revenue sharing provision of the UTP Plan, Nasdaq is permitted to deduct certain costs associated with acting as an exclusive SIP from the total amount of Tape Fees collected. After these costs are deducted from the Tape Fees, Nasdaq distributes to the respective UTP Plan participants their share of Tape Fees based on a combination of trade volume and share volume.

While Nasdaq is currently the exclusive SIP for the UTP Plan, it is working with the other UTP Plan participants to enter into a Request-for-Proposal process to select a new SIP. This process is the result of the SEC's

conditions for extending the UTP Plan beyond its March 2001 termination date. The SEC has required that there be good faith negotiations among the UTP Plan participants on a revised UTP Plan that provides for either (i) a fully viable alternative exclusive SIP for all The Nasdaq National Market securities, or (ii) a fully viable alternative non-exclusive SIP. To avoid conflicts of interest, the SEC cautioned that, in the event the revised UTP Plan provides for an exclusive SIP, a UTP Plan participant--particularly Nasdaq--should not operate as the exclusive SIP unless (i) the SIP is chosen on the basis of bona fide competitive bidding and the participant submits the successful bid, and (ii) any decision to award a contract to a UTP Plan participant, and any ensuing renewal of such contract, is made without that UTP Plan participant's direct or indirect voting participation. The UTP Plan participants unanimously approved the Request-for-Proposal on November 7, 2001; however, it will likely take months to solicit competing bids and come to a joint decision on a new SIP.

The SEC explored the issues relating to the regulation of market information fees and revenues in its 1999 concept release (no. 34-42208). A number of developments in the securities industry led the SEC to initiate its review of the arrangements currently in place for disseminating market information. Each of these developments is attributable, in large part, to improved technology for communicating and organizing information, including:

- o the increased demand of retail investors for high-quality information; and
- o the changing structure of the securities industry, particularly the growth of alternative trading systems that compete with markets operated by SROs and the creation of investor-owned SROs and markets (such as Nasdaq).

Because the value of a market's information is dependent on the quality of the market's operation and regulation, the SEC was concerned that the current arrangements for setting fees and distributing revenues may have needed to be revised in light of the changes in the industry.

In July 2000, the SEC established an Advisory Committee on Market Information to assist it in evaluating issues relating to the public availability of market information. The issues addressed by the committee include (i) alternative models for disseminating and consolidating information from multiple markets, (ii) how market information fees should be determined, including the role of public disclosure of market information costs, fees, revenues and how the fairness and reasonableness of fees should be evaluated, and (iii) appropriate governance structures for joint market information plans and their administration.

Nasdaq participated in the meetings of the Advisory Committee. The Advisory Committee's discussions touched on potentially fundamental changes to SEC rules and policies that govern SIPs and national market system plans. Nasdaq's written positions on these issues present two alternative approaches that ensure the continuation of broad dissemination of consolidated national best-bid-and-offer and consolidated last sale information and that focus on the ability for exchanges to compete in an open environment. The first alternative is to eliminate mandatory participation in the national market system plans, including the UTP Plan, and allow exchanges to choose among several competing SIPs to distribute their data. The second alternative, as an interim approach, is to maintain a single national market system plan with a single exclusive SIP, but one that is more limited in scope and function.

In September 2001, the Advisory Committee presented its report to the SEC. Among other things, the report recommends that:

- o Markets should be permitted to distribute additional market information free from the mandatory consolidation requirements that currently apply to last sale transaction reports and best bid and offer quotations;
- o The SEC should permit a new system of competing market information consolidators to evolve from the current system;
- o If the SEC chooses not to adopt a new system, the SEC should adopt specific improvements to the current system, including selecting the SIP by competitive bidding and broadening governance through a non-voting advisory committee; and
- o The proposal for SEC review of market information fees under a cost-based standard somewhat similar to a utility commission review of rates should be rejected.

The SEC is reviewing the report and any comments it may receive on it. The SEC has not indicated whether it will act on the report's recommendations.

Nasdaq does not expect its revenues to be affected if it loses its status as an exclusive SIP and no longer serves as a SIP; however, if this were to happen, Nasdaq would lose certain control over the costs deducted from the Tape Fees that help to cover its expenses. See "--Risk Factors--Nasdaq's costs may increase if it loses its status as an exclusive SIP."

For the years ended December 31, 2000, 1999 and 1998 Nasdaq's total revenues from market information services were \$258.3 million, \$186.5 million and \$152.7 million, respectively. Market information services

accounted for approximately 31.0% of Nasdaq's total revenues for the year ended December 31, 2000. For the nine months ended September 30, 2001, Nasdaq's total revenues from market information services were \$176.9 million, which accounted for approximately 27.6% of Nasdaq's total revenues for the period.

Other Markets

Nasdaq operates the Nasdaq InterMarket as well as the OTC Bulletin Board.

Nasdaq InterMarket. Nasdaq InterMarket is an electronic marketplace where NASD members can trade securities listed on the NYSE and Amex. Users can trade on Nasdaq InterMarket among themselves using Nasdaq's CAES order delivery system, or with another participating stock exchange through the Intermarket Trading System. CAES allows users to direct orders in exchange-listed securities to other NASD members for automatic response and automatic execution, and also provides access to the Intermarket Trading System. Nasdaq InterMarket revenues accounted for approximately 2.8% of Nasdaq's total revenues for the year ended December 31, 2000 and approximately 3.6% of Nasdaq's total revenues for the nine months ended September 30, 2001. Approximately 90% of the revenues generated from the Nasdaq InterMarket are derived from the sale of data and are reflected in market information services revenues, and the remaining amount is derived from transaction service fees for CAES and Intermarket Trading System transactions.

For the nine months ended September 30, 2001, Nasdaq InterMarket accounted for approximately 7% of trades in stocks listed on the NYSE and approximately 30% of trades in stocks listed on Amex. All Nasdaq InterMarket trades are reported and disseminated in real-time to the Consolidated Tape Association ("CTA"), which is the operating authority for exchange-listed securities information, and as such, Nasdaq shares in the revenues generated by the CTA. Two NASD members that are major wholesale market makers and one ECN report most trades. Other ECNs report trades through Nasdaq systems to the CTA and some are planning to begin quoting in Nasdaq InterMarket. NASD members who trade exchange-listed stocks away from the exchanges account for a significant amount of Nasdaq InterMarket trading activity.

OTC Bulletin Board. The OTC Bulletin Board is an electronic screen-based market for equity securities that, among other things, are not listed on The Nasdaq Stock Market or any primary national securities exchange in the United States. At present, the OTC Bulletin Board is a quotation service, as companies do not list on the OTC Bulletin Board. NASD members may post quotes only for companies that file periodic reports with the SEC and/or with a banking or insurance regulatory authority. In addition, such companies are required to be current with their periodic filings. Market makers are billed based on their number of positions during a month. A position is defined as any price quotation or indication of interest entered by a market maker in a security quoted on the OTC Bulletin Board. The monthly fee for participation is \$6.00 per position. There are no fees charged to companies whose securities are quoted on the OTC Bulletin Board. The OTC Bulletin Board revenues accounted for less than 1% of Nasdaq's total revenues for both the year ended December 31, 2000 and for the nine months ended September 30, 2001. Revenues generated from the OTC Bulletin Board are included in transaction services revenues.

Last year, in conjunction with Exchange Registration, the Nasdaq Board and the NASD Board of Governors (the "NASD Board" and, together with the Nasdaq Board, the "Boards"), approved several rule changes that are designed to enhance the OTC Bulletin Board and permit Nasdaq to continue to operate it after Exchange Registration. First, the Boards approved a program for Nasdaq to enter into a listing agreement with each OTC Bulletin Board issuer and impose new listing standards to ensure the quality of these issuers. Second, both Boards approved the creation of an automated order delivery system for the OTC Bulletin Board that would allow orders to be delivered and executed via the Nasdaq Workstation II. Finally, to accompany the new listing standards and order delivery system, the Boards approved enhanced market rules that provide for limit order protection, short interest reporting, and intraday trading halt authority. Nasdaq has submitted to the SEC the appropriate proposed rules and plans to submit exemption requests that would allow Nasdaq to continue to operate the OTC Bulletin Board after Exchange Registration. The SEC has not yet approved the rules or the exemption request.

Therefore, it is not certain whether Nasdaq will continue to operate the OTC Bulletin Board following Exchange Registration. If the SEC does not approve the exemption request, these securities could continue to trade over the counter through a non-Nasdaq facility.

Fee Changes

Nasdaq may change the pricing of its products and services in response to competitive pressures or changes in market or general economic conditions. Pursuant to the requirements of the Exchange Act, Nasdaq must file all proposals for a change in its pricing structure with the SEC. For example, in October 2001, Nasdaq filed with the SEC a proposed rule change to increase listing-related fees beginning January 1, 2002. Nasdaq has proposed raising initial listing fees for companies listed on The Nasdaq National Market with up to 30 million total shares outstanding from the current range of \$34,525-\$95,000 to a flat rate of \$100,000. For companies with 30 to 50 million total shares outstanding, the fee would increase from \$95,000 to \$125,000, and for companies with over 50 million total shares outstanding, the fee would increase from \$95,000 to \$150,000. Nasdaq has also proposed raising the annual fees charged to companies listed on The Nasdaq National Market, which currently range from \$10,710-\$50,000, depending on the number of total shares outstanding, to a range of \$21,225 to \$60,000 depending on the number of total shares outstanding. With

respect to initial listing fees for companies listed on The Nasdaq SmallCap Market, Nasdaq has proposed to increase the total maximum initial listing fee from \$10,000 to \$47,500. Nasdaq has also proposed to increase The Nasdaq SmallCap Market annual fee (1) from \$4,000 to \$8,000 for the first class of securities, and (2) from \$1,000 to \$2,000 for each additional class of securities. Similar changes have been proposed for non-U.S. companies and American Depositary Receipts listed on The Nasdaq National Market. The revenue expected to be generated from these proposed listing-related fee increases will be used primarily to fund enhancements to the services offered Nasdaq-listed companies, including the establishment of a corporate client information center. See "--Nasdaq's Strategic Initiatives-Developing a Corporate Client Center." In addition, by the beginning of 2002, Nasdaq expects to offer preferential pricing and rebates for market participants that report substantially all their trades to Nasdaq.

Nasdaq's Strategic Initiatives

Nasdaq's strategic initiatives include enhancing its products and services, creating a market for listing and trading single stock futures, and pursuing global market expansion through the creation of Nasdaq Japan, Inc. ("Nasdaq Japan") and Nasdaq Europe S.A./N.V. ("Nasdaq Europe") and exploring alliances with foreign exchanges.

Enhancing Products and Services.

Nasdaq Order Display Facility. On January 10, 2001, the SEC approved a rule proposal to establish the Nasdaq Order Display Facility ("SuperMontage(sm)"). SuperMontage is an improved user interface on the Nasdaq Workstation II designed to refine how market participants can access, process, display, and integrate orders and quotes in The Nasdaq Stock Market. SuperMontage has several strategic implications. It is intended to attract more orders to The Nasdaq Stock Market by providing a comprehensive display of the interest at or near the inside market, thus increasing competition and market transparency. SuperMontage also will provide pre-trade anonymity to market participants using a Nasdaq system, i.e., prior to execution no one will know the identity of the firm displaying the order unless such firm reveals its identity. Anonymous trading can contribute to improved pricing for securities by reducing the potential market impact of large transactions and transactions by certain investors whose trading activity, if known, may be more likely to influence others.

By allowing (but not requiring) market participants to give the Nasdaq system multiple orders at a single as well as at multiple price levels, SuperMontage will assist market participants with the management of their back book, i.e., orders that are not at the best price in the market maker's book/system. This functionality will also assist market participants with compliance with the SEC's order handling rules, which among other things, require the display of customer limit orders priced better than a Nasdaq market maker's or a designated dealer's quote or that are for a larger number of shares at the same price. Other system enhancements may make it easier for ECNs to accept automatic execution via Nasdaq systems.

In the January 10, 2001 approval order, the SEC imposed certain conditions on both Nasdaq and the NASD that must be met prior to the implementation of SuperMontage. These conditions addressed the SEC's concern that participation in the SuperMontage system would be viewed as involuntary due to Nasdaq's role as the exclusive SIP. See "-Market Information Services" for a description of Nasdaq's role as an exclusive SIP. The conditions imposed by the SEC require that:

- o the NASD will offer a quote and trade reporting alternative that satisfies the SEC's rules;
- o NASD quotes disseminated through the exclusive SIP will identify the alternative trading system or market maker source of the quote; and
- o participation in SuperMontage will be entirely voluntary.

Assuming these conditions can be met and Nasdaq can successfully implement SuperMontage, Nasdaq will add SuperMontage to the Nasdaq Workstation II and show the top three price levels in any quoted security: the best bid and offer in The Nasdaq Stock Market, and the two next best bids and offers. In each case, this display will be accompanied by the aggregate order size at each price level. Market makers in The Nasdaq Stock Market and ECNs will be able to display their orders anonymously at these price levels in SuperMontage, thus encouraging display of greater trading interest. As currently envisioned, SuperMontage will display the aggregate trading interest in a security at the top of the screen by aggregating the trading interest of all identified market participants and any anonymous interest, which is entered into the Nasdaq system. Market participants will be able to access the best prices in SuperMontage electronically using enhanced versions of Nasdaq's SuperSoes and SelectNet services. Thus, Nasdaq will provide order delivery and automatic execution against the prices displayed in SuperMontage. Nasdaq will continue to offer the ability to market participants to negotiate transactions with specific market makers and ECNs electronically at sizes above the quote size in The Nasdaq Stock Market. Nasdaq currently contemplates that it will begin user testing of SuperMontage in the second quarter of 2002.

Creating a Single Stock Futures Market. On June 1, 2001, Nasdaq and the London International Financial Futures and Options Exchange ("LIFFE") formed Nasdaq LIFFE, LLC, a new U.S. joint venture company to list and trade single stock futures. On August 21, 2001, the Commodity Futures Trading Commission approved Nasdaq LIFFE as a futures market and SRO. In

addition, the U.K. Treasury has recognized Nasdaq LIFFE as an overseas investment exchange in the United Kingdom, allowing Nasdaq LIFFE to provide direct access to its market to members in the United Kingdom. Nasdaq LIFFE is currently positioning itself to be ready to commence trading in single stock futures sometime after December 21, 2001, when it becomes legally permissible to do so. Established in 1982, LIFFE is an electronic exchange that enables its users to manage their exposure to foreign exchange rates and interest rates through the offering of markets for a range of financial and non-financial derivative instruments. These instruments include futures and options products on short-term interest rates, government bonds, equities (including equities in the U.S., the U.K. and continental Europe), indices and commodity products. In 1998, LIFFE transformed its market from a floor-based trading system to a screen-based electronic system through the implementation of its LIFFE CONNECT(TM) electronic system. The products of the new joint venture are expected to be traded through a modified version of the LIFFE CONNECT electronic system.

Developing a Corporate Client Center. On October 26, 2001, Nasdaq announced that it has begun to develop a corporate client center that is aimed at being a "one-stop shop" for information and client services. The corporate client center is expected to provide Nasdaq-listed companies with a host of integrated products and services in a centralized and timely manner. Through the use of computer telephony and a myriad of information systems, the corporate client center will leverage Nasdaq's current customer relations management. Nasdaq expects to launch the first phase of the corporate client center in early 2002. In conjunction with the development of the corporate client center, Nasdaq will be enhancing Nasdaq Online with the goal of improving the user experience.

Pursuing Global Market Expansion. The forces of technology and deregulation are accelerating the pace of globalization in the trading and processing of securities. Nasdaq believes that the "open architecture" of its trading platform, including unlimited electronic access, has led to the "democratization" of equity markets in the United States (approximately 50% of U.S. citizens directly or indirectly own stocks vs. approximately 18% in Europe and approximately 15% in Japan) and can do the same abroad. Nasdaq also believes that the foundation to create a global market should be built on a strong regional presence in the dominant capital centers of the world. At this time, those centers are the United States, Europe and Asia, particularly Japan. Establishing centers for price discovery and trading in these key regions will develop the foundation for electronically linking these pools of capital within a global platform. Senior officers of Nasdaq have conducted exploratory discussions with a number of major U.S. and foreign securities exchanges, regarding inter-exchange cooperation, joint ventures, marketing affiliations, combinations, or other collaborative activities. Nasdaq anticipates that such discussions will continue but cannot predict the results of any such discussions.

Nasdaq Japan. In June 1999, a joint venture agreement to capitalize a new company, Nasdaq Japan Planning Company, Inc. (subsequently renamed Nasdaq Japan, Inc.) was entered into by the NASD and SOFTBANK Corp. of Japan ("SOFTBANK"), a provider of information, distribution and infrastructure services in the digital information industry. The NASD and SOFTBANK had each made capital contributions of approximately \$2.6 million to Nasdaq Japan. The NASD's investment was subsequently transferred to Nasdaq Global Holdings ("Nasdaq Global"), which is a wholly-owned subsidiary of Nasdaq.

Under the joint venture agreement, Nasdaq and SOFTBANK agreed to jointly operate and provide management support, technology and services to Nasdaq Japan in its development and implementation of a new electronic stock market in Japan as a section of the Osaka Securities Exchange (the "OSE"). The OSE is one of Japan's oldest securities exchanges, with over 1,200 listed companies, and is Japan's largest derivatives market. Nasdaq also provided Nasdaq Japan with licenses to its technology and trademarks. On April 19, 2000, Nasdaq Japan signed a Business Collaboration Agreement with the OSE to establish the Nasdaq Japan Market as a new market section of the OSE. The OSE provides regulatory and listing review as well as clearance and settlement services to Nasdaq Japan under the agreement. The Nasdaq Japan Market began operations on June 19, 2000. In its first phase of operations, prior to its deployment of a SuperMontage-like trading platform technology, Nasdaq Japan will recruit IPOs of companies for listing and will trade these securities on the existing OSE system. As of May 1, 2001, 52 companies were trading on the interim trading platform with an average monthly share volume of 5,281,728 shares. In addition, Nasdaq Japan, subject to regulatory approvals, is seeking to become competitive in the trading of U.S. listed securities and exchange traded funds in Japan, including the Nasdaq-100 QQQ exchange-traded fund. In October 2001, Starbucks Coffee Japan, Ltd. had an IPO of its common stock and listed on Nasdaq Japan. Starbucks Corporation, a U.S. based Nasdaq-listed Company, is a major shareholder of Starbucks Coffee Japan, Ltd.

In October 2000, Nasdaq Japan's owners approved a private placement transaction in which Nasdaq Japan sold an approximate 15% stake for approximately \$48.0 million to a group of 13 major Japanese, U.S. and European brokerages, thereby reducing the ownership interest of Nasdaq Global in Nasdaq Japan to approximately 39%. Ten of the new investors sit on an advisory council that recently elected one director to represent them on Nasdaq Japan's seven-member board. The proceeds of this private placement will be used primarily for working capital and the development of a more sophisticated and efficient share-trading platform. As a start up operation, Nasdaq Japan has had only operating losses since its inception. In July 2001, the Nasdaq Board approved an \$8.0 million capital contribution to Nasdaq Japan.

Nasdaq Japan competes for transactions and listings with the Tokyo Stock Exchange and JASDAQ Market, Inc., an over-the-counter market. The Tokyo Stock Exchange is the dominant equities market in Japan, capturing approximately 90% of the overall equities trading in Japan. In particular,

Nasdaq Japan competes for new, growth companies that historically had a difficult time accessing the Japanese equity markets. See "--Risk Factors-- Nasdaq may not be successful in executing its international strategy."

Nasdaq Europe S.A./N.V. In March 2001, Nasdaq invested \$12.5 million to acquire an initial 68% stake in EASDAQ S.A./N.V. ("EASDAQ"), with an immediate aim to dilute its interest through the introduction of other strategic partners as shareholders. EASDAQ was a pan-European stock market for emerging growth companies and was headquartered in Brussels. Pursuant to the investment agreement with EASDAQ, Nasdaq obtained the right to appoint a majority of EASDAQ's board of directors and granted EASDAQ a loan in the amount of approximately \$2.6 million. In connection with this investment Nasdaq also restructured EASDAQ into Nasdaq Europe with the goal to make Nasdaq Europe a globally linked pan-European market. Nasdaq has granted Nasdaq Europe a free non-exclusive license to use the Nasdaq trademark and brand name.

A variety of firms, representing a cross-section of U.S. and foreign-based investment banking, financial services and securities firms, have joined Nasdaq as investors in Nasdaq Europe. Among these firms is Knight Trading Group, which holds an approximately 8.7% ownership stake in Nasdaq Europe through its earlier investment in EASDAQ. As of September 30, 2001, Nasdaq's ownership stake in Nasdaq Europe was 60.5%. On November 13, 2001, Nasdaq Europe announced that three large financial institutions and market participants have agreed to make an equity investment in Nasdaq Europe. Nasdaq expects additional investors in Nasdaq Europe. Nasdaq continues to explore opportunities for expanding its presence in Europe, including possible combinations or other collaborative activities with one or more major European institutions. In connection with its strategy of forging partnerships with leading markets, on November 14, 2001, Nasdaq Europe announced the formation of a partnership with the Berlin Stock Exchange. The partnership will provide Nasdaq Europe with direct access to the German market, and is the first time an international partnership has been established with a German market. Pursuant to the partnership, each partner is expected to take a minority interest in the other. Nasdaq Europe expects to launch trading in Germany during the first half of 2002.

Nasdaq Europe has also launched the newly developed European Trading System. The European Trading System offers functions similar to The Nasdaq Stock Market while being adaptable to the needs and requirements of the European market. In addition, Nasdaq Europe intends to introduce a system later this year that will integrate certain functions of the SuperMontage system customized to European best practices. This market model will integrate market maker quotes into an anonymous, voluntary limit order book and provide expanded negotiation facilities and trade reporting. As of September 30, 2001, there were 314 companies traded on Nasdaq Europe, 55 of which are listed on Nasdaq Europe and 259 are admitted for trading, and 70 different member firms. For the nine months ended September 30, 2001, Nasdaq Europe's monthly trading volume averaged 9,170 trades and monthly share volume averaged approximately 22.6 million shares.

Nasdaq Europe's main competitors for listings and trading are the three primary exchanges in Europe--Deutsche Borse AG, Euronext N.V. and the London Stock Exchange. Nasdaq Europe expects the competition for retail and institutional order flow to be based in large part on the ability of firms to operate within an exchange environment that offers optimum market structures and services within a well-regulated marketplace. Nasdaq Europe believes that its approach to key issues--market structure, clearance and settlement, product development, and branding--can offer an exchange platform for market participants to compete successfully in Europe.

Nasdaq Europe is in its nascent stages and has only operating losses since the acquisition by Nasdaq. See "--Risk Factors-- Nasdaq may not be successful in executing its international strategy."

Canadian Alliance. In April 2000, Nasdaq entered into a cooperative agreement with the Provincial Government of Quebec for the development of a new securities market within Canada called Nasdaq Canada. To facilitate this development, the Provincial Government of Quebec has agreed to undertake the necessary legislative and/or regulatory initiatives to promote the assimilation of Nasdaq Canada into Quebec, including the recognition of Nasdaq as a securities exchange within Quebec and the recognition of Nasdaq-listed securities for trading through Nasdaq Canada without further regulatory action. Nasdaq Canada will be developed in stages and may culminate in the creation of an autonomous pan-Canadian market. The first stage commenced on November 21, 2000 with the installation of Nasdaq terminals in 10 Canadian securities firms in Montreal, Canada and the establishment of the Nasdaq Canada Index which tracks the market performance of Canadian-listed Nasdaq stocks. These terminals allow these firms to trade Nasdaq-listed securities directly through their local broker, including the over 40 Canadian firms previously listed solely on The Nasdaq Stock Market in the United States. The second stage is scheduled to commence following the implementation of SuperMontage and is expected to involve participation by new Canadian broker-dealers, trading in both U.S. and Canadian dollars and the opportunity to list Canadian companies exclusively on Nasdaq Canada. The planned third stage will result in the linking of Nasdaq Canada with The Nasdaq Stock Market, Nasdaq Europe and Nasdaq Japan. The timing of the second and third stages will be dependent on the success of the alliance's first stage.

Technology

The Nasdaq Stock Market was the world's first electronic screen-based stock market and its use of state-of-the-art computer networking, telecommunications, and information technologies distinguishes it from other U.S. securities markets. Nasdaq embraces automation through the effective use of technology as the key to the future of financial markets. Using technology, Nasdaq eliminates the need for a physical trading floor

and enables qualified investors across the country to compete freely with one another in a screen-based environment. Nasdaq also employs technology to maximize its ability to communicate with investors, issuers, traders, the media, and others. In addition to the Enterprise Wide Network II and the Nasdaq Workstation II, Nasdaq technologies include:

The Processing Complex. Nasdaq's quote, trade execution, and trade reporting systems are based on mainframe technology and are located in a processing complex in Trumbull, Connecticut. The systems routinely handle trade volume of over two billion shares daily and over 4,000 transactions per second. In addition, these systems have substantial reserve capacity to handle far greater levels of activity. An alternate processing complex located in Rockville, Maryland backs up the Trumbull technology center.

Data Repository. Market data from Nasdaq's quote and trade execution systems are transferred via high-speed communications links to a market data repository in Rockville, Maryland. At this facility, eight terabytes of on-line data are available for real-time analysis, historical analysis, market surveillance and regulation, and data mining. The information is provided to applications and users through relational database and higher-level access facilities. The data is also available for delivery to Internet applications.

Nasdaq Tools. On March 7, 2000, Nasdaq purchased Financial Systemware, Inc., a manufacturer of software products. Financial Systemware became a wholly-owned subsidiary of Nasdaq that has been named Nasdaq Tools, Inc. Nasdaq Tools has an order routing and quote management product that allows for, among other things, automatic execution of a liability order, automatic updating of a security's market, and the ability to decline subsequent orders at the same price. Nasdaq Tools is in the process of introducing a new service bureau product, "Tools Plus" that is a position management system with real-time valuation, including profit and loss calculations, automatic execution and display of orders, risk management features, direct ECN access (for SEC Ordering Handling Rule compliance), and storage of information in a database and/or report format. It also provides an Order Audit Trail System compliance feature that handles transaction reporting via e-mail to regulatory agencies.

Strategic Technology Alliances. Historically, Nasdaq has demonstrated an ability to adapt current technology to provide an efficient, robust, and fault tolerant price discovery network. To continue its successful evolution, Nasdaq has formed partnerships and alliances with innovative technology leaders, including the following:

Microsoft. Nasdaq uses Microsoft technology to drive Nasdaq.com and other Web sites. In addition, Microsoft products are in broad use throughout Nasdaq, including Microsoft Exchange for e-mail and sharing information; NT and Windows 2000 servers for application, file, and print support; and Windows workstations for applications and professional productivity. Future potential technology alliances with Microsoft include site and information linkages between Nasdaq.com and Microsoft's MoneyCentral Web site. The alliance may sponsor industry standard solutions for Internet-based financial information exchange and management.

TIBCO. Nasdaq has formed an alliance with TIBCO Software Inc. ("TIBCO") to develop a series of innovative applications utilizing TIBCO information bus technology, which simplifies and manages communications between diverse systems and platforms. These applications include the real-time dissemination of market data, population of data on the Nasdaq.com Web site, and planned use of the technology in next-generation workstation products. Future uses of TIBCO technology may include the development and deployment of next-generation market systems, and extension of publish-and-subscribe technology to additional data distribution channels inside and outside Nasdaq.

IndigoMarkets. IndigoMarkets(sm) Ltd., a joint venture with SSI Ltd. of India, was established in May 2000. Nasdaq Global currently has a 55% interest in the venture, which will create market platforms for Nasdaq global markets, including Nasdaq Japan. IndigoMarkets is also expected to license its products to other customers worldwide. In October 2000, Indigo Markets created a wholly-owned Indian subsidiary, Indigo Markets India Private Ltd. The purpose of the new subsidiary is to license products to Indian customers as well as to provide ongoing maintenance and consulting services.

BIOS Group. On June 25, 1999, Nasdaq and the BIOS Group, a research and development organization based in Santa Fe, New Mexico, formed the Nasdaq/BIOS R&D Joint Venture, LLC (the "Nasdaq BIOS JV"). This joint venture is owned 50% by Nasdaq and 50% by the BIOS Group. The purpose of the joint venture is to spawn new product and/or system ideas to advance the business objectives of Nasdaq. Nasdaq will retain a right of first refusal on any intellectual property generated as a result of the joint venture. Nasdaq has the exclusive right to any technologies related to its business objectives.

Competition

The securities markets are intensely competitive and they are expected to remain so. Nasdaq competes globally and on a product and/or specific geographical basis. Nasdaq competes based on a number of factors, including the quality of its technological and regulatory infrastructure, total transaction costs, the depth and breadth of its markets, the quality of its value-added customer services (e.g., market forums and educational programs), international capabilities, reputation and price. In the U.S., Nasdaq is one of the leaders in each of its principal businesses. Some of Nasdaq's most significant challenges and opportunities will arise outside the United States as globalization is likely to result in a need for a worldwide network for linking global pools of capital and offering

investors maximum access to invest in companies anywhere at anytime. In order to take advantage of these opportunities, Nasdaq has formed alliances in key financial centers around the world in order to build on its successes in the United States and its strong, worldwide brand. Nevertheless, most of Nasdaq's competitors overseas are currently larger and have a longer operating history in their markets than does Nasdaq.

In light of recent technological and regulatory changes and new product introductions, Nasdaq expects to compete with a number of different entities varying in size, business objectives and strategy.

Corporate Client Group Services. Nasdaq's strategies for maintaining its current listings in both The Nasdaq National Market and The Nasdaq SmallCap Market and gaining new listings include building global brand identity, developing joint marketing opportunities with listed companies, better communication with key decision makers, and providing other value-added services to Nasdaq-listed companies. Nasdaq's marketing efforts have centered on creating a valuable brand-an important factor in attracting and retaining large world-class growth companies.

In terms of obtaining new listings, Nasdaq will continue to focus its efforts primarily on growth companies. Over the last 12 -18 months, general market and economic conditions have made it difficult for many companies to access the public equity markets. Nevertheless, Nasdaq believes that its market model, strong global reputation and value-added services will enable it to compete successfully for listings. Nasdaq employs a variety of initiatives and tools in its marketing efforts, including media advertising, Internet publishing (Nasdaq.com), and international road shows. Historically, Nasdaq's communication has focused on potential issuers and the general investing community. Going forward, Nasdaq will seek to broaden its marketing efforts to incorporate all those interacting with its business.

Nasdaq competes primarily with the NYSE for larger company listings on The Nasdaq National Market. As of September 30, 2001, there were 3,434 companies listed on The Nasdaq National Market with an aggregate domestic market capitalization of \$2.3 trillion compared to 2,813 companies listed on the NYSE with an aggregate domestic market capitalization of \$10.7 trillion. This playing field has never been even as historically Rule 500 of the NYSE, which required supermajority stockholder approval before a listed company could delist from the NYSE, made it extremely difficult for issuers on the NYSE to leave voluntarily. On July 21, 1999 the SEC approved an amendment to Rule 500 to allow a company to delist from the NYSE if it obtains the approval of its board of directors and its audit committee, publishes a press release announcing its proposed delisting and sends a written notice to its largest 35 stockholders of record (U.S. stockholders of record if a non-U.S. issuer) alerting them to the proposed delisting. Because of these affirmative steps imposed on an issuer's board of directors, in particular the notice requirements, Nasdaq believes that Rule 500 in its modified form continues to constitute an impediment to Nasdaq's ability to compete for NYSE listings. Since Rule 500 was amended, only one company has transferred from the NYSE to The Nasdaq Stock Market. From January 1, 1996 to September 30, 2001, 343 companies have switched to the NYSE from The Nasdaq National Market. The number of such transfers has declined significantly, however, from a high of 96 in 1996 to 25 in 2000. There have been 26 transfers for the first nine months of 2001.

Nasdaq competes primarily with the Amex for listings on The Nasdaq SmallCap Market. From January 1, 1996 to September 30, 2001, 53 companies have switched to Amex from The Nasdaq SmallCap Market. There have been no transfers to Amex for the first nine months of 2001.

Companies also have a choice of not listing on any market. In that case, broker-dealers may still make markets for such securities and post their quotes on the OTC Bulletin Board or the Pink Sheets, owned by Pink Sheets LLC, a privately owned company. In the fall of 1999, Pink Sheets LLC began operating an electronic version of the Pink Sheets, allowing for the more frequent updating of quotes and information about over-the-counter securities. Many broker-dealers have adopted the electronic version thereby facilitating the centralization of quotations and adding to the transparency of quotes for over-the-counter securities. This enhancement to the Pink Sheets may lead some companies to reconsider the value and associated costs of listing on The Nasdaq Stock Market and increase the level of listing competition Nasdaq faces at the small-company end of the spectrum.

Transaction Services. Nasdaq's core trading service is the provision of the Nasdaq network that provides for the entry and real-time broadcast of quotes to market makers and ECNs. Nasdaq expects to face competition from a number of different sources in providing these services including:

- o Competing stock exchanges or network providers that develop ways to effectively replicate Nasdaq's network and offer quote, execution and reporting services at a lower cost and/or a greater speed and persuade a critical mass of market participants to switch to the new network/market;
- o Competing stock exchanges that are able to find ways to effectively link into Nasdaq's network while avoiding the subscription fees paid by member firms. The SEC could require Nasdaq to distribute the quotations of independent exchanges or the NASD through the Nasdaq network without permitting Nasdaq to charge the same quotation fees that Nasdaq may assess on Nasdaq quote providers. If this were to occur, Nasdaq would, in effect, incur added costs potentially without an opportunity to recover such costs from its full user base;
- o ECNs and third-party service bureaus that may join together to

form one dominant service provider, thereby diminishing Nasdaq's competitive position; and

- o Companies that could provide trading services for products and services, including software companies, information and media companies and other companies that are not currently in the securities business.

The net effect of these additional competitors, along with continuing advances in technology and regulatory changes may put downward pressure on the prices Nasdaq may charge for its transaction services.

To address this competition, Nasdaq has looked to enhance its technology and the services it provides to its market participants and refine its pricing approach by reviewing each component of its transaction services, including access services, execution services and post-trade services. For each component, Nasdaq has attempted to make pricing more attractive in order to retain usage of its services. In addition, Nasdaq has looked to increase member awareness of The Nasdaq Stock Market's role as a provider of liquidity in the United States and internationally. For example, Nasdaq has enhanced its order routing and execution services through the implementation of SuperSoes, and will add to that Primex, a new price improvement system, and the introduction of SuperMontage. Nasdaq has also commenced operations in Europe and Japan to extend the benefits of its information and trading platform internationally.

Market Information Services. Nasdaq's market information services revenue is under competitive threat from other stock exchanges that trade Nasdaq-listed stocks, including the established regional exchanges. Current SEC regulations permit these regional exchanges to trade certain securities that are not listed on a national securities exchange, including securities listed on The Nasdaq National Market, pursuant to Nasdaq's UTP Plan. Nasdaq's UTP Plan entitles these exchanges to a share of Nasdaq's data revenue, roughly proportional to such exchange's share of trading as measured by share volume and number of trades. Currently, the Boston Stock Exchange, the Chicago Stock Exchange, and the Cincinnati Stock Exchange trade Nasdaq-listed securities pursuant to the UTP Plan. For the years 1998, 1999 and 2000, the Chicago Stock Exchange's share of trading was 0.15%, 1.11% and 2.50%, respectively. The Cincinnati Stock Exchange did not commence trading under the UTP Plan until 2001. The Boston Stock Exchange commenced trading on November 8, 2001. For the nine month period ended September 30, 2001, the Chicago Stock Exchange's share of trading was 3.01% and the Cincinnati Stock Exchange's share of trading was less than 0.01%. Amex and the Philadelphia Stock Exchange have indicated their intent to commence trading in Nasdaq-listed securities pursuant to the UTP Plan. In addition, at least two ECNs (Pacific/Archipelago and Island) have applied for exchange registration and expressed interest in becoming UTP Plan participants; the SEC approved Pacific/Archipelago's proposal to establish the Archipelago Exchange as an equities trading facility of the Pacific Exchange in October 2001. Current active participants in the UTP Plan have established payment for order flow arrangements with their members and customers through sharing tape revenues.

During the last few years, there has been an increase in the number of ECNs. In general, ECNs subscribe to the network service, report trades to ACT, and use Nasdaq's order routing systems. On one level, an ECN performs the same function as an order entry firm by bringing buyers and sellers together. However, ECNs pose a potential threat to Nasdaq's market information services business because, under the new SEC guidelines, they may register as securities exchanges. In this case, they would be eligible for a share of the UTP Plan revenue generated by the sale of Nasdaq's market information products, and their use of Nasdaq's systems could diminish.

Despite the potential threat, Nasdaq's market share of trade and share volume under the UTP Plan remains at approximately 97.0% at present, as participants tend to seek the market with greatest liquidity. Nonetheless, there is potential for significant erosion in The Nasdaq Stock Market's market share of trading activity and the related market information services revenue if new exchanges arise or existing exchanges increase their market share. However, there are substantial steps that must first be taken in order for present and future alternative exchanges to compete with The Nasdaq Stock Market in a meaningful way. These alternative exchanges must first register and be approved as a national securities exchange with the SEC, which can be a lengthy process. In addition, these competitors would have to establish a regulatory structure to ensure the quality of data and support their responsibility of being SROs. In addition, a competitor would need a technological infrastructure in place to ensure the integrity and reliable transmission of data to the SIP.

Other Markets. The Nasdaq Stock Market competes for trading volume in NYSE and Amex exchange-listed securities by offering customers quality trade executions at a reasonable price and derives revenues from the sale of related data. A significant amount of investor self-directed, on-line trading activity in listed securities is today executed on Nasdaq InterMarket. These orders forgo the exposure of the auction trading systems of the exchanges in favor of the execution services provided by Nasdaq InterMarket participants.

Nasdaq is engaged in a vigorous effort to increase market share in the Nasdaq InterMarket by encouraging additional market makers and ECNs to participate through Nasdaq InterMarket. Nasdaq InterMarket has implemented a program designed to lower costs for Nasdaq InterMarket participants executing trades through Nasdaq facilities. The program allows Nasdaq InterMarket participants to share in the tape revenue Nasdaq receives as the participant in the CTA Plan. In addition, in May 2000, Nasdaq redesigned certain systems to improve Nasdaq InterMarket trading environment.

Employees

As of September 30, 2001, Nasdaq had 1,257 employees. In connection with efforts to maximize revenues, reduce costs and improve organizational efficiency, Nasdaq implemented an approximate 10% reduction in workforce on June 27, 2001. None of its employees is subject to collective bargaining agreements or is represented by a union. Nasdaq considers its relations with its employees to be good.

The Restructuring

The NASD founded Nasdaq in 1971. Beginning in 1996, the NASD began an internal reorganization, a major feature of which was to separate the regulation of the broker-dealer professionals and surveillance of Nasdaq from Nasdaq, which included establishing NASD Regulation, Inc. ("NASDR") as a separate, independent wholly-owned subsidiary of the NASD. NASDR was created to regulate securities markets for the benefit and protection of the investor. In carrying out this mission, NASDR assumed a substantial portion of the NASD's responsibilities of being the securities industry's largest self-regulator. In 2000, the NASD formed a new wholly-owned subsidiary called NASD Dispute Resolution Inc. ("NASD Dispute Resolution"), formerly known as the NASD Regulation Office of Dispute Resolution. NASD Dispute Resolution administers the NASD's arbitration, mediation and other alternative dispute-resolution services. Until June 2000, Nasdaq was a wholly-owned subsidiary of the NASD.

At a special meeting of NASD members held on April 14, 2000, more than a majority of NASD members approved the Restructuring through a two-phase private placement of securities. In the first phase of the Restructuring ("Phase I"), on June 28, 2000, Nasdaq sold an aggregate of 23,663,746 shares of Common Stock at \$11.00 per share for an aggregate consideration of \$260,301,206. The NASD sold an aggregate of 6,415,649 warrants to purchase an aggregate amount of 25,662,596 shares of Common Stock at \$11.00 per warrant and an aggregate of 323,496 shares of Common Stock owned by the NASD at \$11.00 per share for an aggregate consideration of \$74,130,595.

In the second phase of the Restructuring ("Phase II"), on January 18, 2001, Nasdaq sold an aggregate of 5,028,797 shares of Common Stock at \$13.00 per share for an aggregate consideration of \$65,374,361. The NASD sold an aggregate of 4,391,145 warrants to purchase an aggregate amount of 17,564,580 shares of Common Stock at \$14.00 per warrant and an aggregate of 4,219,795 shares of Common Stock owned by the NASD at \$13.00 per share for an aggregate consideration of \$116,333,365.

Securities in the private placement were offered to (i) all NASD members in good standing as of a record date established for each offering, (ii) approximately 750 of the leading issuers whose stock was listed on The Nasdaq Stock Market based on historic trading activity and market capitalization, and (iii) leading investment companies based on their holdings of all Nasdaq-listed securities. All the securities sold in the private placement are subject to restrictions on transfer until June 2002, and subject to certain additional restrictions in the event of an IPO of the Common Stock. As of October 31, 2001, the NASD's ownership in Nasdaq was reduced to approximately 25% on a fully-diluted basis (approximately 69% on a non-diluted basis).

The Restructuring benefits Nasdaq, its employees and investors and the investing public because it:

- o realigned strategically the ownership of Nasdaq with a broad class of strategic investors interested in Nasdaq's long-term success;
- o will facilitate the streamlining of Nasdaq's corporate governance and, once Nasdaq is reconstituted as an SRO, Nasdaq will not need the NASD's consent (other than as a stockholder) to take corporate actions;
- o fosters the separation of Nasdaq from the NASD and NASDR in an attempt to minimize potential conflicts of interest;
- o generated over \$325 million in gross proceeds for Nasdaq and it created a financially stronger Nasdaq better able to address competitive challenges and invest in new technologies. This will assist Nasdaq in the implementation of its strategic initiatives including (i) deploying new technology like SuperMontage, (ii) forming global alliances and (iii) implementing competitive pricing of its services;
- o provides Nasdaq with greater access to the public capital markets to fund future capital needs;
- o provides Nasdaq with the flexibility to use its Common Stock as acquisition currency, making it easier to make acquisitions or enter into strategic partnerships; and
- o provides Nasdaq with the ability to incentivize employees by allowing them to become part owners of Nasdaq through its equity plans.

The Restructuring benefits the NASD because it:

- o permits the NASD to focus more on its original mission of being solely a membership-focused organization; and
- o generated gross proceeds of over \$190 million from the private placements, with the potential to raise another approximately

\$625 million if all the warrants sold are fully exercised, and approximately \$240 million from the sale of shares of Common Stock to Nasdaq. It is also expected that the NASD will receive fees of approximately \$9 million per year from Nasdaq pursuant to the Separation and Common Services Agreement and the NASDR is expected to receive fees of approximately \$90 million per year pursuant to the Regulatory Services Agreement. The NASD would also receive proceeds from any sale of its remaining 33,767,995 shares of Common Stock that do not underlie any outstanding warrants. These aggregate proceeds will help support the operations of the NASD, which will continue to own NASDR, and will remain the principal SRO responsible for the securities markets. These proceeds will allow the NASDR to better utilize technological advances to regulate the markets more effectively and efficiently.

The Nasdaq Board recognized that by virtue of the broadening of Nasdaq's ownership and the corresponding applicability of the reporting requirements under Sections 13, 14 and 16 of the Exchange Act, Nasdaq will have to devote management time and expense to satisfy the increased disclosure obligations, including information about its operations which would not otherwise be required to be publicly disclosed, and it will become subject to heightened scrutiny of the investing community. The Nasdaq Board also recognized that although the separation of Nasdaq from the NASD is intended to minimize potential conflicts of interests, conflicts may arise between the NASD and Nasdaq relating to their continuing contractual relationships and, until Exchange Registration, the NASD will retain voting control over Nasdaq and, accordingly, will continue to exert influence over Nasdaq's management and affairs.

In furtherance of the goals of the Restructuring, the NASD indicated its intention to sell by June 30, 2002 those shares of Common Stock that it owns (other than shares underlying outstanding warrants), subject to market conditions and the NASD's ability to obtain a fair price. Although it is contemplated that the NASD will eventually divest completely its ownership interest in Nasdaq, there may still exist certain contractual relationships between the parties once this happens. For example, prior to the Restructuring, Nasdaq had access to many support functions of the NASD, including cash management and other financial services, real estate, legal, surveillance and other regulatory services, information services and corporate and administrative services. On June 28, 2000, the NASD and Nasdaq entered into a Separation and Common Services Agreement, which continues until December 31, 2001 and automatically renews for one year if another agreement between the parties does not supercede this agreement, pursuant to which the NASD continues to provide these services to Nasdaq. Under this contract, Nasdaq pays to the NASD the costs of the services provided, including any incidental expenses associated with such services. Nasdaq has contracted with the NASD to provide such services because of the NASD's expertise and experience in providing such services to Nasdaq, resulting in cost savings and greater efficiency for Nasdaq. Nasdaq expects the cost of the services provided by the NASD to be approximately \$9 million per year under this agreement. Nasdaq expects to review in the future the provision of these services to determine whether it will be more efficient to internalize these services or to seek alternative third party providers. See "--Risk Factors--Nasdaq faces potential conflicts of interest with related parties," "--Risk Factors--The intercompany agreements may not be effected on terms as favorable to Nasdaq as could have been obtained from unaffiliated third parties" and "Item 7. Certain Relationships and Related Transactions."

In addition, on June 28, 2000, Nasdaq and NASDR, a wholly-owned subsidiary of the NASD, entered into a Regulatory Services Agreement pursuant to which NASDR or its subsidiaries will provide regulatory services to Nasdaq and its subsidiaries commencing upon the effectiveness of Exchange Registration. The term of the Regulatory Services Agreement is 10 years. The services will be of the same type and scope as are provided by NASDR to Nasdaq under the Delegation Plan. Each service is to be provided for a minimum of five years, after which time the parties may determine to terminate the provision by NASDR of a particular service. The termination of a particular service will generally be based upon a review of pricing and the need for such services. Nasdaq expects the cost of these services provided by the NASDR to be approximately \$90 million per year. See "--Risk Factors--Nasdaq faces potential conflicts of interest with related parties," "--Risk Factors--The intercompany agreements may not be effected on terms as favorable to Nasdaq as could have been obtained from unaffiliated third parties" and "Item 7. Certain Relationships and Related Transactions."

Market Oversight

Virtually all facets of the operation of The Nasdaq Stock Market are subject to the SEC's oversight, as prescribed by the Exchange Act.

SROs in the securities industry are an essential component of the regulatory scheme of the Exchange Act for providing fair and orderly markets and protecting investors. The Exchange Act and the rules thereunder impose on the SROs many regulatory and operational responsibilities, including the day-to-day responsibilities for market and broker-dealer oversight. In general, a SRO is responsible for regulating its members through the adoption and enforcement of rules and regulations governing the business conduct of its members. The NASD is the largest SRO in the United States, with a membership that includes virtually every U.S. broker-dealer. The NASD's status as a national securities association registered pursuant to the terms of Section 15A of the Exchange Act establishes it as a SRO, on par with registered exchanges (such as the NYSE and Amex), which are also SROs. To date, the NASD is the only registered securities association, though there is nothing in the Exchange Act precluding the formation of other similar associations. The NASD was organized to standardize the

securities industry's principles and practices, to promote high standards of commercial honor, to advance just and equitable principles of trade for investor protection, to adopt and enforce rules of fair practice and to foster member observance of federal and state securities laws. In keeping with its regulatory obligations, the NASD is also currently responsible for the regulation of the activity on The Nasdaq Stock Market as well as the over-the-counter market.

Section 19 of the Exchange Act lays out the SEC's authority with respect to SROs. In brief, SROs must submit proposed changes of their rules to the SEC. The SEC will typically publish the proposal for public comment, following which the SEC may approve, abrogate or amend the proposal, as it deems appropriate. The SEC's action is designed to ensure that SRO rules and procedures are consistent with the aims of the Exchange Act. In 1996, investigations by the SEC and the U.S. Department of Justice found deficiencies in the NASD's oversight of The Nasdaq Stock Market and the NASD's enforcement of broker-dealer compliance with the NASD rules and the requirements of the federal securities laws. In particular, the SEC's order and report found that the NASD responded inadequately to information suggesting that its members engaged in anticompetitive pricing practices and that the NASD failed to enforce its trade reporting, firm quote, and membership rules. As a consequence, the NASD made certain undertakings as part of an order issued by the SEC, including assuring that adequate resources are available to monitor the systems for compliance, providing greater independence to the regulatory staff, ensuring greater non-industry participation in deliberations relating to regulatory and policy making and providing the NASDR with the day-to-day responsibility for regulation, surveillance, examination and disciplining of members. Other undertakings included hiring professional hearing officers to preside over disciplinary proceedings; applying consistent standards for regulatory and other access issues, such as membership admission; ensuring the existence of a substantial internal audit staff; implementing an order audit trail; improving order handling and trade reporting and the enforcement of the firm quote rule; preventing anticompetitive pricing practices among market makers; and retaining an independent consultant to report on the implementation of all of these undertakings to the NASD Board and the SEC. It is the SEC's current position that Nasdaq is subject to the order and, as applicable, bound by its requirements.

Under the Delegation Plan, the NASD has delegated responsibility for market-operation functions to Nasdaq. Although Nasdaq exercises primary responsibility for market-related functions, including market-related rulemaking, all actions taken by Nasdaq pursuant to its delegated authority are subject to review, ratification or rejection by the NASD. As long as the Delegation Plan remains in effect, the NASD will continue to have authority over Nasdaq in this respect. The current structure will continue until Nasdaq is reconstituted as an SRO, which will become effective upon Exchange Registration. As a SRO, like other registered exchanges, Nasdaq will have its own rules regarding listing, membership, trading and regulation that are distinct and separate from those administered by the NASD. Broker-dealers will be able to choose to become members of Nasdaq, in addition to their other SRO memberships (including the NASD). As a SRO, Nasdaq will regulate only those who elect to become members of Nasdaq while the NASD will still be responsible for regulating all its members. At the time Nasdaq becomes an SRO, the NASD will no longer be responsible for Nasdaq meeting its SRO obligations.

Pursuant to a long-term contract, NASDR will perform substantially the same type and scope of regulatory functions as those NASDR performs for Nasdaq now prior to Exchange Registration. See "Item 7. Certain Relationships and Related Transactions" and "-Risk Factors-Nasdaq faces potential conflicts of interest with related parties" and "-The intercompany agreements may not be effected on terms as favorable to Nasdaq as could have been obtained from unaffiliated third parties." In general, under this contract NASDR will perform automated surveillance of trading on the markets operated by Nasdaq and review member firm compliance with the rules and regulations applicable to trading and market-making functions.

Exchange Registration

Nasdaq has initiated the process with the SEC for Exchange Registration by filing an application with the SEC. If Nasdaq obtains Exchange Registration it will receive its own SRO status separate from that of the NASD. Exchange Registration is primarily a change in legal status for Nasdaq as opposed to a change in the manner that Nasdaq operates. Exchange Registration is not expected to have a material effect on Nasdaq's operating results in the short term.

Nasdaq is seeking Exchange Registration for a number of reasons. Exchange Registration will allow Nasdaq to separate fully from the NASD, further minimizing potential conflicts between Nasdaq and the NASDR and thereby furthering certain of the principal goals of the Restructuring. In addition, separation from the NASD will allow Nasdaq to more easily raise capital for technology and for operational improvements. Exchange Registration will also eliminate the disparity of treatment under certain state laws between securities that are "listed on an exchange" and those that are not. Nasdaq's domestic and global profile will be enhanced as Nasdaq will become known as a securities exchange on the same terms as other U.S. registered-exchange markets allowing Nasdaq to better respond to the competition it faces. In addition, Exchange Registration will allow Nasdaq to better compete with European exchanges which have, or plan to, become publicly-traded companies by enhancing its ability to raise capital and respond quickly to changes in the industry.

Nasdaq's application for Exchange Registration was published by the SEC for public comment on June 13, 2001. Information relating to Nasdaq's application can be found at the SEC's web site at <http://www.sec.gov/rules/other/34-44396.htm>. In connection with Exchange

Registration, the SEC is conducting a review of Nasdaq's current rules and operations. The SEC also has requested certain changes be made to the national market system plans and is reviewing issues relating to the future control and operation of the OTC Bulletin Board. In addition, the SEC has also stated that its approval of Exchange Registration is linked to the NASD's ability to provide an alternative facility to NASD members to assist in the quotation and transaction reporting of exchange-listed securities. As a result, the SEC's present position appears to be that the NASD may have to have a quotation and transaction reporting facility for securities listed on The Nasdaq Stock Market, the NYSE and Amex in place upon Exchange Registration. The SEC is reviewing comment letters received and then will issue an order granting Exchange Registration or begin proceedings to disapprove the application. The comment period or the SEC's time for review of Nasdaq's application also may be extended. There is no assurance that Exchange Registration will be granted or as to the timing of Exchange Registration. See"--Risk Factors--The SEC may challenge or not approve Nasdaq's plan to become a national securities exchange or it may require changes in the manner Nasdaq conducts its business before granting its approval."

Exchange Registration will provide investors in Nasdaq with greater governance rights, as the NASD will no longer be required to retain voting control over Nasdaq. Until Nasdaq becomes an exchange, the shares underlying unexercised and unexpired warrants as well as shares of Common Stock purchased through the valid exercise of warrants, will be voted by a trustee at the direction of the NASD, assuring that the NASD will retain voting control over Nasdaq. Upon Exchange Registration, the shares of Common Stock purchased through the valid exercise of warrants will be voted by the holder of the shares and the shares underlying unexercised and unexpired warrants will be voted at the direction of the respective warrant holder. In addition, the NASD has stated that, commencing upon Exchange Registration, it will vote its shares of Common Stock (other than shares underlying then-outstanding warrants) in the same proportion as the other common stockholders of Nasdaq. For example, if 60% of all holders of Common Stock (other than the NASD) vote in favor of a proposal and 40% vote against, the NASD will vote 60% of its shares of Common Stock in favor of the proposal and 40% against it. On May 22, 2001, Robert Glauber of the NASD and Hardwick Simmons of Nasdaq, issued a joint letter to the members of the NASD announcing an arrangement between the two companies whereby there will continue to be a certain overlap between the members of the NASD Board and the Nasdaq Board only until such time as Nasdaq is granted Exchange Registration.

Other Recent Transactions

On May 3, 2001, Nasdaq issued and sold \$240.0 million in aggregate principal amount of its 4% convertible subordinated debentures due 2006 (the "Subordinated Debentures") to Hellman & Friedman Capital Partners IV, L.P. and certain of its affiliated limited partnerships (collectively, "Hellman & Friedman"). The Subordinated Debentures are convertible at any time into an aggregate of 12,000,000 shares of Common Stock, reflecting a conversion price of \$20.00 per share, subject to adjustment, in general, for any stock split, dividend, combination, recapitalization or other similar event. Hellman & Friedman owns approximately 9.7% of Nasdaq on an as-converted basis. In connection with the transaction, Nasdaq has agreed to use its best efforts to seek stockholder approval of a charter amendment that would provide for voting debt in order to permit Hellman & Friedman to vote on an as-converted basis on all matters on which common stockholders have the right to vote, subject to the 5% voting limitation in Nasdaq's Restated Certificate of Incorporation (the "Certificate of Incorporation"). In addition, Nasdaq has also agreed that in the event that the Nasdaq Board approves an exemption from the foregoing 5% limitation for any person (other than an exemption granted in connection with a strategic market alliance) and seeks the concurrence of the SEC with respect thereto, Nasdaq will grant Hellman & Friedman a comparable exemption from such limitation and use its best efforts to obtain SEC concurrence of such exemption. In connection with the transaction, Nasdaq granted Hellman & Friedman certain registration rights with respect to the shares of Common Stock underlying the Subordinated Debentures. Additionally, Hellman & Friedman is permitted to designate one person reasonably acceptable to Nasdaq for nomination as a director of Nasdaq for so long as Hellman & Friedman owns Subordinated Debentures and/or shares of Common Stock issued upon conversion representing at least 50% of the shares of Common Stock issuable upon conversion of the Subordinated Debentures initially purchased. Effective May 3, 2001, F. Warren Hellman was elected to the Nasdaq Board pursuant to the foregoing provision.

On May 3, 2001, Nasdaq used the net proceeds from the sale of the Subordinated Debentures to purchase 18,461,538 shares of Common Stock from the NASD for \$13.00 per share for an aggregate purchase price of \$239,999,994. These repurchased shares are no longer outstanding. In connection with the transaction, Nasdaq and the NASD have agreed to enter into an Investor Rights Agreement pursuant to which Nasdaq will grant the NASD (i) certain demand and piggyback registration rights with respect to the shares of Common Stock owned by it and (ii) certain rights such that, prior to Exchange Registration, Nasdaq would need the consent of the NASD before any issuance of Common Stock (or securities convertible into Common Stock) that would dilute the NASD's ownership by 5% or more.

Risk Factors

This Registration Statement contains forward-looking statements that involve risks and uncertainties. Nasdaq's actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks faced by Nasdaq described below and elsewhere in this Registration Statement.

The risks and uncertainties described below are not the only ones facing

Nasdaq. Additional risks and uncertainties not presently known to Nasdaq or that Nasdaq currently believes to be immaterial may also adversely affect Nasdaq's business. If any of the following risks actually occur, Nasdaq's business, financial condition, or operating results could be materially adversely affected.

Nasdaq's operating results could fluctuate significantly in the future.

Nasdaq's operating results may fluctuate significantly in the future as a result of a variety of factors, including: (i) a decrease in the trading volume in The Nasdaq Stock Market; (ii) increased competition from alternative market venues that might reduce market share and create pricing pressure; (iii) competition from the NYSE or new competing exchanges for new listings; (iv) a reduction in market data revenue; (v) the rate at which The Nasdaq Stock Market obtains new listings and maintains its current listings; (vi) regulatory changes and compliance costs; (vii) Nasdaq's ability to utilize its capital effectively; (viii) Nasdaq's ability to manage personnel, overhead, and other expenses, in particular technology expenses; and (ix) general market and economic conditions.

Nasdaq's business could be harmed by market fluctuations and other risks associated with the securities industry generally.

A substantial portion of Nasdaq's revenues is tied to the trading volume of its listed securities. Trading volume is directly affected by economic and political conditions, broad trends in business and finance, and changes in volume and price levels of securities transactions. An adverse change affecting the economy or the securities markets could result in a decline in trading volume. Nasdaq is also particularly affected by declines in trading volume in technology and Internet-related stocks because a significant portion of its customers trade in these types of stocks and a large number of technology and Internet-related companies are listed on The Nasdaq Stock Market. A decline in trading volume would lower transaction services revenues, and Nasdaq's profitability may be adversely affected if it is unable to reduce costs at the same rate. A downturn in the initial public offering market is also likely to have an adverse effect on Nasdaq's revenues, including, in particular, revenues from listing fees. For example, in the first nine months of 2001, 39 IPOs were brought to market on The Nasdaq Stock Market compared to 350 in the first nine months of 2000. There were also 596 delisted companies in the first nine months of 2001 compared to 428 during the same time period last year. Further downward trends in general market conditions could adversely affect Nasdaq's revenues and reduce its profitability if Nasdaq cannot reduce its costs at the same rate to offset such trends.

Substantial competition could reduce The Nasdaq Stock Market's market share and harm Nasdaq's financial performance.

It is possible that a competing securities exchange, network provider, or technology company could develop ways to replicate Nasdaq's network more efficiently than Nasdaq and persuade a critical mass of market participants to switch to a new network. The NYSE has announced that it might buy or build its own electronic network for trading Nasdaq-listed stocks and has announced that it is in discussions with nine other exchanges in Europe, Asia, and the Americas to form a set of global alliances that would be intended to allow investors to trade throughout the day. This could have an adverse effect on Nasdaq's business, financial condition, and results of operation.

If there is an increase in the number of market makers or ECNs that determine they do enough order routing traffic to justify setting up a proprietary network for their traffic, Nasdaq may be forced to reduce its fees further or risk losing its share of the order routing or execution business. In addition, certain system providers link many market makers in The Nasdaq Stock Market. These systems may be able to increase the number of orders executed through their systems versus the Nasdaq systems. A reduction in Nasdaq's order routing or execution business could have an adverse effect on Nasdaq's business, financial condition, and operating results.

The traditional products and services offered by markets are being unbundled. Historically, Nasdaq has provided listings, execution services, information services, and regulatory services to the investing public. Currently, there are many competitors operating in the execution services market. Nasdaq has not historically implemented pricing strategies that isolate its various businesses. Due to competition in the execution services business, as well as Nasdaq's past practice of bundling products and services, it is uncertain whether Nasdaq will be able to compete successfully in this business. Furthermore, Nasdaq faces multiple pricing constraints, including in particular, regulatory constraints that may prevent it from competing effectively in certain markets.

Substantial competition could reduce Nasdaq's Corporate Client Group services revenues.

The Nasdaq Stock Market faces competition for listings from other primary exchanges, especially from the NYSE. In addition to competition for initial listings, The Nasdaq Stock Market also competes with the NYSE to maintain listings. In the past, a number of issuers listed on The Nasdaq Stock Market have left for the NYSE each year. The largest 50 Nasdaq-listed issuers (based on U.S. market value) accounted for approximately 43% of total dollar volume traded on The Nasdaq Stock Market for the nine months ended September 30, 2001. Therefore, the loss of one or more of these issuers would result in a significant decrease in revenues from Nasdaq's Corporate Client Group services.

ECNs do not currently provide listing venues, although such systems can register as an exchange and compete with traditional exchanges and The

Nasdaq Stock Market for the execution and market data business. At least two ECNs (Pacific/Archipelago and Island) have applied to become registered as a national securities exchange, and in October 2001, the SEC approved Pacific/Archipelago's proposal to establish the Archipelago Exchange as an equities trading facility of the Pacific Exchange. If these new exchanges are successful in attracting trading volume and do not continue to use Nasdaq transaction systems, traditional listings will become less profitable to Nasdaq as they will not provide corresponding revenue from trade executions and the sale of market data. In addition, if ECNs become exchanges, they may enter the competition for issuer listings. There can be no assurances that Nasdaq will be able to maintain or increase its listing revenues. The reduction in initial listings or the loss of a top issuer could have an adverse effect on Nasdaq's business, financial condition, and operating results.

Nasdaq's market information services revenues are threatened by other exchanges trading Nasdaq stocks.

Current SEC regulations permit national securities exchanges to trade certain securities that are listed on The Nasdaq Stock Market pursuant to the UTP Plan. If the UTP Plan participants' share of trades in Nasdaq-listed stocks increases substantially, Nasdaq's financial condition and operating results could be adversely affected. In addition, since the allowable costs that are shared by UTP Plan participants and the fees Nasdaq can charge for data products are not exclusively set by Nasdaq, Nasdaq's control over its revenue and cost base under the UTP Plan is limited. Current amendments to the UTP Plan under review by the SEC include (i) an increase in the number of the eligible securities over a one year period from 1,000 to all securities on The Nasdaq National Market and The Nasdaq SmallCap Market, and (ii) the elimination of the floor and ceiling limits on the amount of market data revenue Nasdaq must share with the UTP Plan participants. These and other amendments could have a materially adverse effect on Nasdaq's business, financial condition, and operating results.

Nasdaq's costs may increase if it loses its status as the exclusive SIP under the UTP Plan.

Under the UTP Plan, Nasdaq collects quotation and last sale information from competing exchanges (currently the Boston Stock Exchange, the Chicago Stock Exchange, and the Cincinnati Stock Exchange) and consolidates such information with its own. Nasdaq sells this information for a Tape Fee. Under the revenue sharing provision of the UTP Plan, Nasdaq is permitted to deduct certain costs associated with acting as the exclusive SIP from the total amount of Tape Fees collected. The SEC has stated that as a condition of extending the UTP Plan, the parties to the UTP Plan must negotiate in good faith to revise the UTP Plan so that it provides for either a fully viable alternative exclusive SIP for all Nasdaq-listed securities or a fully viable alternative non-exclusive SIP. Each UTP participant will have to share in the development costs to create the new SIP. Therefore, if Nasdaq loses its status as the exclusive SIP under the UTP Plan, its ongoing costs may increase.

Nasdaq may lose trade reporting revenues if more market participants bypass the comparison feature of its trade reporting system.

As market participants continue to establish automated trading links with one another and lock-in transactions externally from The Nasdaq Stock Market, the use of the ACT comparison function, as a percentage of total trading volume, may continue to decrease. This negatively affects revenue, since firms are using ACT for trade reporting, but not for comparison.

Certain Congressional and SEC reviews could result in a reduction in data fees that could reduce Nasdaq's revenues.

The SEC is reviewing concerns by industry members that the present levels of data fees do not properly reflect the costs associated with their collection, processing and distribution. As noted above, the SEC is considering the report of its Advisory Committee on Market Information and comments on the report. The SEC may or may not act on the report's recommendations. Nasdaq has argued that there are regulatory, market capacity, and other related costs of operating the market. A fee realignment that does not recognize the full market costs of creating and delivering high quality market data could reduce overall data revenues in the future and adversely affect Nasdaq's business, financial condition, and operating results.

Legislation was introduced and hearings were held in the last session of Congress pertaining to whether stock exchanges and markets have a property right to quote and trade data. Hearings were held again on this subject in March, April, and July 2001. Since securities firms are required to supply the market operator with quote and trade information, some have argued that the operator has no right to be able to validate the data, consolidate the data with other market participant data, and sell the data back to the securities firms. This issue continues to be debated and the outcome could have a significant impact on the viability of Nasdaq's data revenue and, as a consequence, on its business, financial condition, and operating results.

Nasdaq is subject to extensive regulation that may harm its ability to compete with less regulated entities.

Under current federal securities laws, changes in Nasdaq's rules and operations, including its pricing structure, must be approved by the SEC. The SEC may approve, disapprove, or recommend changes to proposals submitted by Nasdaq. In addition, the SEC may delay the initiation of the public comment process or the approval process. This delay in approving changes, or the altering of any proposed change, could have an adverse effect on Nasdaq's business, financial condition, and operating results.

System limitations and failures could harm Nasdaq's business.

Nasdaq's business depends on the integrity and performance of the computer and communications systems supporting it. If Nasdaq's systems cannot be expanded to cope with increased demand or fail to perform, Nasdaq could experience: (i) unanticipated disruptions in service, (ii) slower response times, and (iii) delays in the introduction of new products and services. These consequences could result in lower trading volumes, financial losses, decreased customer service and satisfaction, litigation or customer claims, and regulatory sanctions. Nasdaq has experienced occasional systems failures and delays in the past and it could experience future systems failures and delays.

Nasdaq uses internally developed systems to operate its business, including transaction processing systems to accommodate increased capacity. However, if The Nasdaq Stock Market's trading volume increases unexpectedly, Nasdaq will need to expand and upgrade its technology, transaction processing systems and network infrastructure. Nasdaq does not know whether it will be able to project accurately the rate, timing, or cost of any increases, or expand and upgrade its systems and infrastructure to accommodate any increases in a timely manner.

Nasdaq's systems and operations also are vulnerable to damage or interruption from human error, natural disasters, power loss, sabotage or terrorism, computer viruses, intentional acts of vandalism, and similar events. Nasdaq currently maintains multiple computer facilities that are designed to provide redundancy and back-up to reduce the risk of system disruptions, and has facilities in place that are expected to maintain service during a system disruption. Any system failure that causes an interruption in service or decreases the responsiveness of Nasdaq's service could impair its reputation, damage its brand name, and negatively impact its revenues. Nasdaq also relies on a number of third parties for systems support. Any interruption in these third-party services or deterioration in the performance of these services could also be disruptive to Nasdaq's business and have a material adverse effect on its business, financial condition, and operating results.

Nasdaq may not be able to keep up with rapid technological and other competitive changes affecting the structure of the securities markets.

The markets in which Nasdaq competes are characterized by rapidly changing technology, evolving industry standards, frequent enhancements to existing services and products, the introduction of new services and products, and changing customer demands. These market characteristics are heightened by the emerging nature of the Internet and the trend for companies from many industries to offer Internet-based products and services. In addition, the widespread adoption of new Internet, networking, or telecommunications technologies or other technological changes could require Nasdaq to incur substantial expenditures to modify or adapt its services or infrastructure. Nasdaq's future success will depend on its ability to respond to changing technologies on a timely and cost-effective basis. Nasdaq's operating results may be adversely affected if it cannot successfully develop, introduce, or market new services and products. In addition, any failure by Nasdaq to anticipate or respond adequately to changes in technology and customer preferences, or any significant delays in other product development efforts, could have a material adverse effect on Nasdaq's business, financial condition, and operating results.

Nasdaq may have difficulty managing its growth.

Over the last several years, Nasdaq has experienced significant growth in its business and the number of its employees. Nasdaq may not be able to continue to manage its growth successfully. In an attempt to stimulate future growth, Nasdaq has undertaken several initiatives to increase its business, including enhancing existing products, developing new products, and forming strategic relationships. The increased costs associated with Nasdaq's initiatives may not be offset by corresponding increases in its revenues. The growth of Nasdaq's business has required, and will continue to require, Nasdaq to increase its investment in technology, management personnel, market regulatory services, and facilities. No assurance can be made that Nasdaq has made adequate allowances for the costs and risks associated with this expansion, that its systems, procedures, or controls will be adequate to support its operations, or that its management will be able to offer and expand its services successfully. If Nasdaq is unable to manage its growth effectively, its business, financial condition, and operating results could be adversely affected.

Nasdaq may need additional funds to support its business plan.

Nasdaq depends on the availability of adequate capital to maintain and develop its business. Nasdaq believes that its current capital requirements will be met from internally generated funds and from the funds raised in connection with the Restructuring. However, based upon a variety of factors, including the rate of market acceptance of Nasdaq's new products, the cost of service and technology upgrades, and regulatory costs, Nasdaq's capital requirements may vary from those currently planned. There can be no assurance that additional capital will be available on a timely basis, or on favorable terms or at all.

Nasdaq may not be successful in executing its international strategy.

In order to take advantage of anticipated opportunities that will arise outside the United States, Nasdaq intends to invest significant resources in developing strategic partnerships with non-U.S. stock markets. Nasdaq has had only very limited experience in developing localized versions of its services and in marketing and operating its services internationally. To date, Nasdaq's international efforts have not yet achieved

profitability. There can be no assurance that Nasdaq will be able to succeed in marketing its branded services and developing localized services in international markets. Nasdaq may experience difficulty in managing its international operations because of, among other things, competitive conditions overseas, difficulties in supervising foreign operations, managing currency risk, established domestic markets, language and cultural differences, political and economic instability, and changes in regulatory requirements or the failure to obtain requested regulatory changes and approvals. Any of the above could have an adverse effect on the success of Nasdaq's international operations and, consequently, on Nasdaq's business, financial condition, and operating results. See "Item 1. Business--Nasdaq's Strategic Initiatives--Pursuing Global Market Expansion."

Extended hours trading may have a negative impact on Nasdaq's business.

Today, market participants, including some ECNs, are trading beyond traditional market hours (9:30 a.m. to 4:00 p.m., Eastern time). Extending trading hours may put additional stress on the financial services industry. Nasdaq has extended the availability of its trade reporting and quotation systems from 8:00 a.m. until 6:30 p.m. Eastern time. Specifically, the systems involved include ACT, ACES, CAES/Intermarket Trading System, SelectNet, the Nasdaq Quotation Display System, Nasdaq Trade Dissemination Service, and Nasdaq Level 1 Service (which disseminates real-time, inside quote updates, as well as the 4:00 p.m. closing prices). Certain Nasdaq market participants have been unable to modify their technology to accommodate the expansion of trading hours and attendant regulatory requirements. To date, volume in extended hours trading remains relatively low. However, to the extent that a large extended hours session develops and Nasdaq market participants are not prepared to handle the additional capacity, The Nasdaq Stock Market may lose trading volume to more technologically advanced competitors. In addition, insufficient interest in extended hours trading could result in decreased liquidity, increased volatility, or degeneration of price discovery, all of which could potentially undermine the public confidence in The Nasdaq Stock Market and adversely affect Nasdaq's business, financial condition, and operating results. In addition, the revenues generated by trading in the extended hours market may not be sufficient to cover costs associated with such trading.

Failure to protect its intellectual property rights could harm Nasdaq's brand-building efforts and ability to compete effectively.

To protect its rights to its intellectual property, Nasdaq relies on a combination of trademark laws, copyright laws, patent laws, trade secret protection, confidentiality agreements, and other contractual arrangements with its employees, affiliates, clients, strategic partners, and others. The protective steps Nasdaq has taken may be inadequate to deter misappropriation of its proprietary information. Nasdaq may be unable to detect the unauthorized use of, or take appropriate steps to enforce, its intellectual property rights. Nasdaq has registered, or applied to register, its trademarks in the U.S. and in 40 foreign jurisdictions and has pending U.S. and foreign applications for other trademarks. Effective trademark, copyright, patent, and trade secret protection may not be available in every country in which Nasdaq offers or intends to offer its services. Failure to protect its intellectual property adequately could harm its brand and affect its ability to compete effectively. Further, defending its intellectual property rights could result in the expenditure of significant financial and managerial resources, which could adversely affect Nasdaq's business, financial condition, and operating results.

Lack of operating history as a for-profit entity with private ownership interests.

While Nasdaq has an established operating history, it has only operated as a for-profit company with private ownership interests since June 28, 2000. Therefore, Nasdaq is subject to the risks and uncertainties associated with any newly independent company. Nasdaq has had access to many support functions of the NASD, including: cash management and other financial services, real estate, legal, surveillance, and other regulatory services, information services, and corporate and administrative services. Nasdaq has entered into, and intends to enter into, various intercompany arrangements with the NASD and its affiliates for the provision of these services on an on-going or transitional basis. See "-Nasdaq faces potential conflicts of interest with related parties" and "-The intercompany agreements may not be effected on terms as favorable to Nasdaq as could have been obtained from unaffiliated third parties" and "Item 7. Certain Relationships and Related Transactions." In addition, Nasdaq's initiatives designed to increase operating efficiencies may not yield the expected benefits or efficiencies and may be subject to delays, unexpected costs, and cost overruns, all of which could have an adverse effect on Nasdaq's business, financial condition, and operating results.

Failure to attract and retain key personnel may adversely affect Nasdaq's ability to conduct its business.

Nasdaq's future success depends on the continued service and performance of its senior management and certain other key personnel. For example, Nasdaq is dependent on specialized systems personnel to operate, maintain, and upgrade its systems. The inability of Nasdaq to retain key personnel or retain other qualified personnel could adversely affect Nasdaq's business, financial condition, and operating results. See "Item 5. Directors and Executive Officers."

Nasdaq is subject to risks relating to litigation and potential securities laws liability.

Many aspects of Nasdaq's business potentially involve substantial risks of liability. While Nasdaq enjoys immunity for certain self-regulatory

organization activities, it could be exposed to substantial liability under federal and state securities laws, other federal and state laws and court decisions, as well as rules and regulations promulgated by the SEC and other federal and state agencies. These risks include, among others, potential liability from disputes over the terms of a trade, the claim that a system failure or delay cost a customer money, that Nasdaq entered into an unauthorized transaction or that it provided materially false or misleading statements in connection with a securities transaction. As Nasdaq intends to defend any such litigation actively, significant legal expenses could be incurred. An adverse resolution of any future lawsuit or claim against Nasdaq could have an adverse effect on its business, financial condition, and operating results.

Nasdaq's networks may be vulnerable to security risks.

As with other computer networks, it is possible that Nasdaq's networks may be vulnerable to unauthorized access, computer viruses, and other security problems. Persons who circumvent security measures could wrongfully use Nasdaq's information or cause interruptions or malfunctions in Nasdaq's operations. Nasdaq is required to continue to expend significant resources to protect against the threat of security breaches or to alleviate problems caused by any such breaches. Although Nasdaq intends to continue to implement industry-standard security measures, these measures may prove to be inadequate and result in system failures and delays that could lower trading volumes and have an adverse effect on Nasdaq's business, financial condition, and operating results.

Nasdaq faces potential conflicts of interest with related parties.

As of November 15, 2001, the NASD beneficially owns, on a fully diluted basis, approximately 25% of Nasdaq's outstanding Common Stock (approximately 69% on a non-diluted basis). See "Item 10. Recent Sales of Unregistered Securities." Until Exchange Registration, the shares of Common Stock underlying any unexpired and unexercised tranches of warrants sold in the Restructuring by the NASD, as well as the shares of Common Stock purchased through the valid exercise of such warrants, will be voted at the direction of the NASD. In addition, five of the 18 members of the Nasdaq Board are currently members of the NASD Board. Until Exchange Registration, the NASD will be in a position to continue to control substantially all matters affecting Nasdaq, including any determination with respect to the direction and policies of Nasdaq, acquisition or disposition of assets, future issuances of securities of Nasdaq, Nasdaq's incurrence of debt, and any dividend payable on the Common Stock.

Conflicts of interest may arise between Nasdaq and the NASD, or its affiliates, in a number of areas relating to their past and ongoing relationships, including the nature, quality, and pricing of services rendered; shared marketing functions; tax and employee benefit matters; indemnity agreements; sales or distributions by the NASD of all or any portion of its ownership interest in Nasdaq; or the NASD's ability to influence certain affairs of Nasdaq prior to Exchange Registration. There can be no assurance that the NASD and Nasdaq will be able to resolve any potential conflict or that, if resolved, Nasdaq would not receive more favorable resolution if it were dealing with an unaffiliated party.

Conflicts may also arise between Nasdaq and Amex by virtue of commitments made by the NASD in connection with its acquisition of Amex.

The intercompany agreements may not be effected on terms as favorable to Nasdaq as could have been obtained from unaffiliated third parties.

For purposes of governing their ongoing relationship, Nasdaq and the NASD, or their affiliates, have entered into, or intend to enter into, various agreements involving the provision of services such as market surveillance and other regulatory functions, cash management and other financial services, legal, facilities sharing, information services, corporate, and other administrative services. However, as of the date hereof, Nasdaq has only fully negotiated a contract with the NASDR pursuant to which NASDR will regulate Nasdaq trading activity commencing upon the effectiveness of Exchange Registration. The NASDR will continue regulating trading activity on Nasdaq under a new long-term contract that establishes the various functions NASDR will perform and the price that Nasdaq will pay for these functions. The functions covered under this contract are substantially the same type and scope as those NASDR performs under the Delegation Plan.

The terms of the other intercompany agreements have not yet been fully negotiated. Although it is the intention of the parties to negotiate agreements that provide for arm's length, fair market value pricing, there can be no assurance that these contemplated agreements, or the transactions provided in them, will be effected on terms as favorable to Nasdaq as could have been obtained from unaffiliated third parties. The cost to Nasdaq for such services could increase at a faster rate than its revenues and could adversely affect Nasdaq's business, financial condition, and operating results. See "Item 7. Certain Relationships and Related Transactions."

The SEC may challenge or not approve Nasdaq's plan to become a national securities exchange or it may require changes in the manner Nasdaq conducts its business before granting this approval.

The SEC may not approve Nasdaq's proposal to be registered as a national securities exchange or may require changes in the manner Nasdaq conducts its business before granting this approval. Failure to be so registered could adversely affect Nasdaq's competitive position and could have a material adverse effect on Nasdaq's business conditions and business prospects.

In connection with Exchange Registration, certain changes must be made to the national market system plans. Certain participants in the plans may

object to, or request modifications to, amendments proposed by Nasdaq. Failure to resolve these issues in a timely manner could delay Exchange Registration. In addition, the SEC has also stated that its approval of Exchange Registration is linked to the NASD's ability to provide an alternative facility to NASD members to assist in the quotation and transaction reporting of exchange-listed securities. Any significant delay or failure on the part of the NASD to build this residual market could also delay the SEC's approval of Exchange Registration.

There can be no assurance that Exchange Registration will occur or that the registration process will occur in a timely manner. Because of the nature of the regulatory process and the variety of market structure issues that would have to be resolved across all markets, the registration process could be lengthy. In the long-term, the failure to be approved as an exchange by the SEC may have negative implications on the ability of Nasdaq to fund its planned initiatives.

In addition, the SEC has not yet agreed and may not agree to Nasdaq's proposal to continue to operate the OTC Bulletin Board after Exchange Registration.

Nasdaq may face competition from the establishment of a "residual market" by the NASD.

In the SEC's January 2001 order approving SuperMontage, it noted that in order to address concerns that Nasdaq's position as an exclusive SIP would compel participation in SuperMontage, the NASD has committed to provide NASD members with the ability to opt-out of SuperMontage by providing an alternative quotation and transaction reporting facility for NASD members. In addition, the SEC has also stated that the approval of Exchange Registration is linked to the NASD's obligation to provide an alternative facility to allow NASD members to report trades and disseminate quotations in exchange-listed securities. If this market becomes a viable alternative to The Nasdaq Stock Market, then Nasdaq faces the risk of reduced market share in transactions and market information services revenues, which would adversely affect Nasdaq's business, financial condition, and operating results.

Nasdaq will not pay cash dividends for the foreseeable future.

Nasdaq anticipates that earnings, if any, will be retained for the development of its business and that no cash dividends will be declared on the Common Stock for the foreseeable future.

Provisions of Delaware law and Nasdaq's governing documents may delay or prevent its takeover.

Nasdaq is organized under the laws of the State of Delaware and was incorporated in 1979. Certain provisions of Delaware law may have the effect of delaying or preventing a transaction that would cause a change in Nasdaq's control. In addition, certain provisions of the Certificate of Incorporation and Nasdaq's By-Laws (the "By-Laws") may delay, defer, or prevent this type of transaction, even if Nasdaq's stockholders consider the transaction to be in their best interests. For example, the Certificate of Incorporation places limitations on the voting rights of persons, other than the NASD or any other person as may be approved by the Nasdaq Board prior to the time such person owns more than 5% of the then outstanding shares of Common Stock, who otherwise would be entitled to exercise voting rights in respect of more than 5% of the then outstanding shares of Common Stock. As a result, third parties are limited from exercising voting control over Nasdaq. Moreover, it is possible that the SEC might object to any action of the Nasdaq Board that would permit certain persons from being exempted from the foregoing restriction on voting power. In addition, in response to the SEC's concern about a concentration of ownership of Nasdaq, Nasdaq's Exchange Registration application includes a rule that prohibits any Nasdaq member or any person associated with a Nasdaq member from beneficially owning more than 5% of the outstanding shares of Common Stock. Other provisions make the removal of incumbent directors and the election of new directors more time consuming and difficult, which may discourage third parties from attempting to obtain control of Nasdaq, even if the change in control would be in the best interests of its stockholders. See "Item 11. Description of Registrant's Securities to be Registered."

Item 2. Financial Information.

The following table presents summary consolidated financial and operating data for Nasdaq. The data presented in this table are derived from "Selected Consolidated Financial Data of Nasdaq" and the consolidated financial statements and notes thereto which are included elsewhere in this Registration Statement. You should read those sections for a further explanation of the financial data summarized here. You should also read the "Management's Discussion and Analysis of Financial Condition and Results of Operations of Nasdaq" section, which describes a number of factors which have affected Nasdaq's financial results.

Selected Consolidated Financial Data

Statements of Income Date:	Year Ended December 31,					Nine Months Ended September 30,	
	1996	1997	1998	1999	2000	2000	2001

(in thousands, except share and per share data and number of listed companies)
(Restated) (Restated)

Revenues:							
Transaction services	\$118,500	\$174,741	\$ 160,506	\$283,652	\$395,123	\$291,231	\$305,772
Market information services	99,446	126,436	152,665	186,543	258,251	200,796	176,925
Corporate Client Group services	111,832	113,019	137,344	163,425	149,297	109,566	116,463
Other	2,452	2,530	308	628	30,040	19,646	42,621
Total revenues	332,230	416,726	450,823	634,248	832,711	621,239	641,781
Expenses:							
Compensation and benefits	54,080	64,324	78,565	98,129	137,284	91,929	131,131
Marketing and advertising	34,356	53,817	42,483	62,790	45,908	32,034	17,597
Depreciation and amortization	24,405	31,336	34,984	43,696	65,645	45,614	65,558
Professional and contract services	17,233	22,259	35,127	35,282	61,483	36,877	54,424
Computer operations and data communications	45,757	61,438	72,111	100,493	138,228	98,545	131,875
Travel, meetings, and training	6,547	7,310	7,750	10,230	12,113	8,312	11,193
Occupancy	4,380	4,883	5,354	6,591	14,766	11,462	19,866
Publications, supplies, and postage	4,512	5,223	5,208	4,670	7,181	4,601	8,538
Disaster related	-	-	-	-	-	-	843
Other	8,995	13,763	14,742	22,666	25,561	13,249	43,054
Total direct expenses	200,265	264,353	296,324	384,547	508,169	342,623	484,079
Support cost from related parties, net	70,293	85,880	100,841	115,189	128,522	90,197	76,121
Total expenses	270,558	350,233	397,165	499,736	636,691	432,820	560,200
Net operating income	61,672	66,493	53,658	134,512	196,020	188,419	81,581
Interest income	6,341	7,522	9,269	12,201	20,111	10,924	16,649
Interest expense	(136)	(797)	(1,962)	(2,143)	(2,130)	(1,677)	(5,447)
Minority interests	-	-	-	-	872	-	5,234
Provision for income taxes	(27,522)	(33,187)	(26,010)	(58,421)	(90,477)	(83,988)	(44,297)
Income before cumulative effect of change in accounting principle	40,355	40,031	34,955	86,149	124,396	113,678	53,720
Cumulative effect of change in accounting principle	-	-	-	-	(101,090)	(101,090)	-
Net income	\$40,355	\$40,031	\$34,955	\$86,149	\$23,306	\$12,588	\$53,720
Weighted average common shares outstanding (1)	100,000,000	100,000,000	100,000,000	100,000,000	112,090,493	108,204,583	119,314,785
Basic earnings per share:							
Before cumulative effect of change in accounting principle	\$0.40	\$0.40	\$0.35	\$0.86	\$1.11	\$1.05	\$0.45
Cumulative effect of change in accounting principle	-	-	-	-	(0.90)	(0.93)	-
Net income	\$0.40	\$0.40	\$0.35	\$0.86	\$0.21	\$0.12	\$0.45
Diluted earnings per share:							
Before cumulative effect of change in accounting principle	\$0.40	\$0.40	\$0.35	\$0.86	\$1.11	\$1.05	\$0.44
Cumulative effect of change in accounting principle	-	-	-	-	(0.90)	(0.93)	-
Net income	\$0.40	\$0.40	\$0.35	\$0.86	\$0.21	\$0.12	\$0.44
Pro forma amounts assuming the change in accounting principle is applied retroactively:							
Total revenues	\$305,041	\$401,774	\$444,764	\$607,203	\$832,711	\$621,239	N/A
Net income	24,095	31,090	31,332	69,944	124,396	113,678	N/A
Basic and diluted earnings per share	\$0.24	\$0.31	\$0.31	\$0.70	\$1.11	\$1.05	N/A
Other Data:							
EBITDA (2)	\$86,077	\$97,829	\$88,642	\$178,208	\$261,665	\$234,033	\$147,139
Capital expenditures	54,361	79,887	33,605	94,193	119,040	48,979	55,939
Net cash provided by operating activities	62,469	76,755	56,723	134,625	249,320	197,839	95,838
Net cash used in investing activities	(50,726)	(123,064)	(58,150)	(130,657)	(286,009)	(192,506)	(72,456)
Net cash provided by financing activities	21	29,766	156	3,876	288,348	282,071	43,460
Number of listed companies (at period end)	5,556	5,487	5,068	4,829	4,734	4,880	4,218
Shares traded (in thousands)	138,100,000	163,900,000	202,000,000	272,600,000	442,800,000	314,600,000	352,100,000

As of December 31,

As of
September 30,

	1996	1997	1998	1999	2000	2001
Balance Sheet Data:(3)					(Restated)	
Cash and cash equivalents	\$20,547	\$4,025	\$2,754	\$10,598	\$262,257	\$329,099
Working capital(4)	92,953	84,668	120,831	154,372	432,767	534,871
Total assets	270,654	353,134	403,745	578,254	1,171,133	1,318,455
Total long term obligations	14,097	41,362	41,248	78,965	220,705	497,273
Total stockholders' equity	189,135	229,166	266,255	352,012	645,159	526,474

- (1) Gives effect to the June 28, 2000, 49,999-for-one stock dividend of the shares of Common Stock for years ended 1996-2000.
- (2) EBITDA represents income before net interest, income taxes, and depreciation and amortization expense. EBITDA is not a measure of performance under generally accepted accounting principles and should not be considered as an alternative to net income as a measure of operating results or cash flows as a measure of liquidity. Nasdaq believes that investors find EBITDA a good measure of Nasdaq's cash flow and ability to incur and service indebtedness. EBITDA as defined may not be comparable to similarly titled measures reported by other companies. EBITDA for 2000 represents income before cumulative change in accounting principle, net interest, income taxes, minority interest and depreciation and amortization expense.
- (3) Balance sheet data for 1996-1999 has not been restated for the change in accounting principle adopted as of January 1, 2000.
- (4) Working capital is calculated as current assets (reduced for held-to-maturity investments classified as current assets) less current liabilities.

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion of the financial condition and results of operations of Nasdaq should be read in conjunction with the consolidated financial statements and notes thereto included elsewhere in this Registration Statement. This discussion contains forward-looking statements that involve risks and uncertainties. Nasdaq's actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including, but not limited to, those set forth under "Item 1. Business-- Risk Factors" and elsewhere in this Registration Statement.

Overview

As of December 31, 2000, the NASD owned approximately 60% of Nasdaq assuming all warrants purchased in Phase I are fully exercised (approximately 81% assuming no warrants are exercised). Phase II of the Restructuring closed in January 2001. Subsequent to the closing of Phase II and the repurchase by Nasdaq of 18,461,538 shares of Common Stock from the NASD on May 3, 2001, the NASD beneficially owns approximately 25% of Nasdaq on a fully diluted basis (approximately 69% on a non-diluted basis). Transactions between Nasdaq and the NASD are on a cost basis and are allocated on a monthly basis through transfer pricing mechanisms.

Business Environment

In the first half of 2000, the economy continued the expansion experienced in 1999 as the U.S. enjoyed high productivity levels, low unemployment and low inflation. This expansionary atmosphere provided a strong environment for equity issuers and for the broker-dealer industry that drives Nasdaq's transaction services and market information services businesses. New issues were at high levels with 342 initial listings, including IPOs, occurring on The Nasdaq Stock Market in the first half of 2000, leading to strong growth in Corporate Client Group services revenues. Additional shares listed by Nasdaq issuers enjoyed similar growth. The broker-dealer industry continued its expansion leading to increased subscriptions for market information services. Both share and trade volume hit record levels as the Nasdaq Composite Index posted its record high in March 2000, resulting in increased transaction services revenues. Daily share volume for the first six months of 2000 averaged 1.70 billion shares a day compared to 992 million shares a day in the first half of 1999, a 71% increase.

To alleviate potential inflationary pressure due to the expansion, the Federal Reserve gradually raised interest rates to the highest level in recent years. Economic growth decelerated in the second half of 2000 as corporate earnings growth and investment slowed, combined with a slowdown in consumer spending. The equity markets declined significantly creating a difficult new issue environment and resulting in a decline in Corporate Client Group services revenue in the latter part of the year. Despite difficult market conditions, trading volumes remained strong, resulting in continued growth in transaction services revenue. Daily share volume in the second half and full year of 2000 averaged 1.81 billion and 1.76 billion shares a day, respectively, compared to 1.15 billion and 1.07 billion shares a day in the second half and full year of 1999, respectively. Market information revenue from professional services remained strong in the second half of the year despite a leveling off in growth, while the

decrease in on-line retail activity led to declines in non-professional market information revenue.

The U.S. economy continued to weaken throughout 2001. In response, the Federal Reserve began in January 2001 to reverse the rate increases previously imposed in an attempt to stimulate the economy. With the outlook for the economy uncertain, Nasdaq's primary revenue components have experienced a slowdown and may remain under pressure for the rest of 2001. A continuing weak equity market may lead to fewer companies proceeding with IPOs or issuing additional shares, resulting in lower Corporate Client Group services revenue. In addition, a weak equity market and corporate earnings environment provide increased risk of delistings. A difficult capital raising environment may also slow the pace of merger and acquisition activity, which combined with a decreased level of new offerings, may provide significant challenges to the broker-dealer industry. Further reductions in on-line retail trade activity and reductions in the staff at the broker-dealers could reduce the demand for both market information and transaction services. In addition, the difficulties faced by Nasdaq customers may lead to increased pricing pressure across various product lines.

The weakening economy and business environment extended into the third quarter. Daily share volume in the third quarter of 2001 slowed to 1.63 billion shares per trading day (excluding the four-day trading halt due to the September 11th terrorist attacks) compared to 1.95 billion shares in the second quarter of 2001 and 1.59 billion shares in the third quarter of 2000. Total trading activity for the third quarter decreased as a result of the four-day market closure. While some of the decline in average volume in the third quarter is due to historical seasonal patterns, the third quarter was adversely impacted by a further softening economy and exceptionally weak volumes for August. Although an increase in volume is expected in the fourth quarter of 2001, the uncertainty of the recessionary environment and current military actions, as further discussed below, may produce unstable market conditions for the remainder of the year. However, Federal Reserve and federal government attempts to respond to the slowdown with a combination of monetary and fiscal stimulus may heighten trading interest and somewhat mitigate the negative impact on fourth quarter share volume.

All of Nasdaq's primary revenue streams were negatively affected in the third quarter by the continued market slow-down. Lower trading volumes resulted in reduced transaction services revenues. Market information services revenue experienced a similar decline as the demand for both professional and non-professional information softened. While reported revenues associated with Corporate Client Group activities were favorable due to the accounting methodology for revenue recognition as discussed in "Change in Accounting Principle" below, actual Corporate Client Group services revenues were down significantly with no IPOs in the U.S. equity markets in September for the first time in 25 years. Total new issues of companies listed on The Nasdaq Stock Market, including IPOs, were 32 in the third quarter of 2001 compared to 38 in the second quarter of 2001 and 163 in the third quarter of 2000. Further decline or future recovery of these revenue streams will depend largely upon general market and economic conditions.

The unprecedented terrorist attacks on the United States on September 11, 2001 have had a significant impact on general economic conditions in the United States and the operations of Nasdaq and the other U.S. securities marketplaces. In connection with the attacks, The Nasdaq Stock Market was closed for four consecutive trading days in an effort to coordinate with the other U.S. marketplaces so that all would be prepared to open and operate effectively. The closure of the market and disruption in business operations of market participants as a result of the terrorist attacks has adversely affected Nasdaq's operating results for the third quarter of 2001.

As a result of the attacks, Nasdaq's executive offices in New York City have been temporarily closed and its New York-based employees have been relocated. In addition, it has been necessary for Nasdaq to make certain non-budgeted expenditures. September 11th disaster related expenses include, but will not be limited to, costs related to the efforts to restore services to market participants; the testing of trading systems; and required reconfiguring of technology, telecommunications and alternative office facilities due to the temporary relocation of employees. September 11th disaster related expenses of \$0.84 million were recorded in the third quarter of 2001. Nasdaq is in the process of determining the total loss of revenues and additional expenses incurred as well as any applicable insurance recoveries. Additional expenses and recoveries will be recorded in future periods.

These attacks have caused uncertainty in the global financial markets, and have contributed to downward pressure on stock prices of U.S. publicly traded companies. This uncertainty may cause customers of Nasdaq's products and services to reassess their operations, capital raising needs and employment needs. Any curtailment in the businesses of its customers or a reduction in the number of users of its services would negatively impact Nasdaq's operations. The occurrences of similar events and the related responsive military actions may further exacerbate negative economic, market or business conditions and uncertainties. In response to the general economic and market uncertainty after the terrorist attacks, effective as of September 26, 2001, Nasdaq formally suspended until January 2, 2002 two requirements for continued listing on both The Nasdaq National Market and The Nasdaq SmallCap Market. The two requirements are (1) minimum bid price, and (2) market value of public float. The implementation of the moratorium is not expected to have a material positive effect on Nasdaq's operating results. However, if weak economic conditions in the United States continue or worsen or if a wider global recession materializes, Nasdaq's business, financial condition and results of operations may be materially adversely affected.

On October 26, 2001, Nasdaq announced a proposed increase in services and listing fees for Nasdaq-listed companies beginning January 1, 2002, subject to SEC approval. This would be the first increase in annual listing fees in 10 years for American Depository Receipts and The Nasdaq SmallCap Market, and the first such increase in four years for The Nasdaq National Market. The revenue expected to be generated from the proposed fee increase will be used primarily to fund enhancements to the services offered Nasdaq-listed companies, including the establishment of a corporate client information center. See "Item 1. Business--Fee Changes."

Change in Accounting Principle

On August 17, 2001, Nasdaq concluded discussions with the SEC with respect to the implementation in its financial statements of Staff Accounting Bulletin 101, "Revenue Recognition in Financial Statements" ("SAB 101"), which became effective for SEC reporting companies in the fourth quarter of 2000. Nasdaq became a SEC public reporting company on June 29, 2001, the effective date of its Registration Statement on Form 10. As a result of the discussions with the SEC, Nasdaq changed its method of accounting for revenue recognition for certain components of its Corporate Client Group services revenues.

In accordance with generally accepted accounting principles, as SAB 101 was adopted effective the fourth quarter of 2000, the change in accounting principle has been applied as of January 1, 2000. In accordance with applicable accounting guidance prior to SAB 101, Nasdaq recognized revenue for issuer initial listing fees and listing of additional shares ("LAS") fees in the month the listing occurred or in the period additional shares were issued, respectively. Nasdaq now recognizes revenue related to initial listing fees and LAS fees on a straight line basis over estimated service periods, which are six and four years, respectively.

As a result of this change in accounting principle, pro forma net income for the nine months ended September 30, 2000, excluding the cumulative effect of the change in accounting principle on prior years' results, decreased \$21.2 million (\$0.20 per share) to \$113.7 million (\$1.05 per share). In addition, Nasdaq recognized a one-time cumulative effect of a change in accounting principle in the first quarter of 2000. This cumulative effect of a change in accounting principle decreased net income in the first nine months of 2000 by \$101.1 million (\$0.93 per share), resulting in net income of \$12.6 million (\$0.12 per share). The adjustment to first quarter 2000 net income for the cumulative change to prior years' results consists of the following:

(amounts in millions)	
Deferred initial listing fees	\$108.5
Deferred LAS fees	60.6

Total deferred fees	169.1
Deferred income tax benefit	(68.0)

Cumulative effect of change in accounting principle	\$101.1
	=====

For the nine months ended September 30, 2001 and 2000, Nasdaq recognized \$34.9 million and \$42.8 million in revenue, respectively, that was included in the cumulative effect adjustment as of January 1, 2000. This revenue contributed \$20.9 million (after income taxes of \$14.0 million) and \$25.6 million (after income taxes of \$17.2 million) to net income for the nine months ended September 30, 2001 and 2000, respectively.

As a result of the change in accounting principle, for the year ended December 31, 2000, revenues decreased \$35.5 million and pro forma net income, excluding the cumulative change in accounting principle, decreased \$20.8 million (\$0.19 per share).

For the year ended December 31, 2000, Nasdaq recognized \$55.7 million in revenue that was included in the cumulative effect adjustment as of January 1, 2000. This revenue contributed \$33.3 million (after income taxes of \$22.4 million) to net income for the year ended December 31, 2000.

Deferred revenue as of December 31, 2000 is included in Note 4 to the Consolidated Financial Statements for the year ended December 31, 2000.

Results of Operations

Nine Months Ended September 30, 2001 Compared to Nine Months Ended September 30, 2000

Nasdaq reported net income of \$53.7 million for the nine months ended September 30, 2001, compared to net income of \$12.6 million for the nine months ended September 30, 2000. Compared to pro forma net income for the nine months ended September 30, 2000 of \$113.7 million, excluding the cumulative effect of the change in accounting principle, net income decreased by \$60.0 million, or 52.7%.

Revenues

Nasdaq's revenues increased from \$621.2 million for the nine months ended September 30, 2000 to \$641.8 million for the nine months ended September 30, 2001, representing a \$20.6 million or a 3.3% increase.

Transaction Services

For the nine months ended September 30, 2001, transaction services revenues of \$305.8 million increased \$14.6 million from \$291.2 million for the nine months ended September 30, 2000, an increase of 5.0%. Transaction services

consist of SelectNet, SOES, SuperSoes, ACT, the Nasdaq Workstation II, CTCI, and other related execution services.

SelectNet, the high-volume automated execution service, provided revenues of \$75.9 million, a decrease of \$9.0 million or 10.6%, for the nine months ended September 30, 2001 from \$84.9 million for the nine months ended September 30, 2000, due to a decrease in trade volume related to the introduction of SuperSoes and the closing of The Nasdaq Stock Market for four consecutive days in September following the terrorist attacks. SelectNet fees are charged on a per transaction basis.

SOES, a system providing for the automatic execution of small orders, provided revenues of \$22.1 million, a decrease of \$0.3 million or 1.3% for the nine months ended September 30, 2001 from \$22.4 million for the nine months ended September 30, 2000, due to the migration of SOES trading activity into the new SuperSoes system for securities listed on The Nasdaq National Market. SOES will continue to operate as an execution system solely for securities listed on The Nasdaq SmallCap Market. The closing of The Nasdaq Stock Market for four consecutive days in September following the terrorist attacks also had a negative impact on revenues. SOES revenues are not expected to be material in future periods. SOES fees are charged on a per transaction basis.

On July 30, 2001, Nasdaq fully implemented SuperSoes. SuperSoes is designed to provide capability for automatic execution of buy and sell orders for market makers, ECNs and institutional and retail customers, as well as streamline Nasdaq's transaction systems. SuperSoes combines features of the existing SelectNet and SOES execution systems and is only available for securities listed on The Nasdaq National Market tier of The Nasdaq Stock Market. Securities listed on The Nasdaq SmallCap Market will continue to be traded through SOES and SelectNet. SuperSoes has resulted in the migration of significant transaction volume, and its corresponding revenue, from SelectNet and SOES to SuperSoes. The changes in the fee schedule for SelectNet and the introduction of the SuperSoes fee schedule at the time of implementation of SuperSoes has had a negative effect on revenues in the third quarter, but a new fee structure implemented October 1, 2001 for SuperSoes and SelectNet is expected to mitigate this negative effect. SuperSoes provided revenues of \$8.2 million for the nine months ended September 30, 2001. SuperSoes fees are charged on a per transaction basis.

ACT, an automated service that provides the post-execution steps of reporting price, volume comparison and clearing of pre-negotiated trades as well as risk management services, provided revenues of \$65.6 million, a decrease of \$9.7 million or 12.9% for the nine months ended September 30, 2001 from \$75.3 million for the nine months ended September 30, 2000, due to the closing of The Nasdaq Stock Market for four consecutive days in September following the terrorist attacks, and various fee changes enacted subsequent to March 31, 2000. These changes include a cap on risk management fees, fee reductions on certain existing services, and a rule change that eliminated charges for certain transactions. ACT fees are generally charged on a per transaction basis.

The Nasdaq Workstation II is the trader's direct connection to Nasdaq's quote and trade execution facilities, providing quotation services, automated trade executions, real-time reporting, trade negotiations and clearing. This trading device, along with application programming interfaces, provided \$111.6 million, an increase of \$23.5 million or 26.7% for the nine months ended September 30, 2001 from \$88.1 million for the nine months ended September 30, 2000. This increase is due to a larger customer base as well as higher fees associated with expanded network capacity. Nasdaq Workstation II fees are charged monthly based upon the number of authorized logon identifications.

Nasdaq provides CTCI for users to report trades, enter orders into SuperSoes and receive execution messages. The CTCI links market participants' automated systems to Nasdaq. This interface is presently being upgraded to a new protocol and increased line speeds. CTCI revenues for the nine months ended September 30, 2001 are \$11.4 million, up \$9.3 million from \$2.1 million for the same period prior year. New fees associated with the upgraded interface are driving the increase in revenues. Users are charged a monthly fee based upon the size of the line.

Market Information Services

For the nine months ended September 30, 2001, market information services revenues of \$176.9 million decreased \$23.9 million or 11.9% from \$200.8 million for the nine months ended September 30, 2000.

Nasdaq's Level 1 service provides subscribers with current inside quote and most recent price at which the last sale or purchase was transacted for a specific security. Fees for professional users are based on monthly subscriptions to terminals or access lines. Non-professional users have the option to access this information through either a flat monthly rate or a per query usage charge. Level 1 revenues decreased by approximately \$16.7 million or 13.7% to \$105.1 million for the nine months ended September 30, 2001 from \$121.8 million for the nine months ended September 30, 2000. The reduction in revenues is due primarily to a decrease in demand for non-professional per query service and the closing of The Nasdaq Stock Market for four consecutive days in September following the terrorist attacks.

Nasdaq Quotation Dissemination Service provides subscribers with the quotes of each individual market maker and ECN, in addition to the inside quotes and last transaction prices. Nasdaq Quotation Dissemination Service revenues decreased by approximately \$13.7 million or 23.0% to \$45.8 million for the nine months ended September 30, 2001 from \$59.5 million for the nine months ended September 30, 2000. This reduction reflects the introduction of the new reduced non-professional service fee and the

closing of The Nasdaq Stock Market for four consecutive days in September following the terrorist attacks. Although the number of Nasdaq Quotation Dissemination Service subscribers increased in total, those eligible for the new reduced non-professional fee led to a decrease in total revenues. Nasdaq Quotation Dissemination Service revenues are derived from monthly subscriptions.

Nasdaq InterMarket tape revenues are derived from data revenue generated by the Consolidated Quotation Plan and the CQ/CTA Plans. The information collected under the CQ/CTA Plans is sold to data vendors, who in turn sell it to the public. Nasdaq's InterMarket revenue is directly related to the percentage of trades in exchange listed securities that are executed in a Nasdaq facility and reported through the CQ/CTA Plans. Nasdaq InterMarket tape revenues increased by approximately \$6.2 million or 39.0% to \$22.1 million for the nine months ended September 30, 2001, from \$15.9 million for the nine months ended September 30, 2000.

Corporate Client Group Services

Corporate Client Group services revenues increased to \$116.5 million for the nine months ended September 30, 2001 from \$109.6 million for the nine months ended September 30, 2000, an increase \$6.9 million or 6.3%.

Corporate Client Group services revenues are derived from fees for initial listings, LAS, and annual renewal fees for companies listed on The Nasdaq Stock Market. Fees are generally calculated based upon total shares outstanding for the issuing company. These fees are initially deferred and amortized over the estimated periods for which the services are provided. Revenues from initial listings and LAS are amortized over six and four years, respectively, and annual fees are amortized on a pro-rata basis over the calendar year.

Initial listing revenues increased \$2.7 million or 10.8% from \$24.9 million in the nine months ended September 30, 2000 to \$27.6 million in the nine months ended September 30, 2001. LAS revenues increased \$1.9 million or 7.7% from \$24.7 million in the nine months ended September 30, 2000 to \$26.6 million in the nine months ended September 30, 2001.

Actual initial listing and LAS fees charged during the nine months ended September 30, 2001 decreased due to significantly reduced IPO activity and capital raising activity by current issuers. Initial listings on The Nasdaq Stock Market declined from 505 companies in the nine months ended September 30, 2000 to 101 companies in the nine months ended September 30, 2001. Initial listing fees charged decreased \$36.6 million or 78.2% from \$46.8 million in the nine months ended September 30, 2000 to \$10.2 million in the nine months ended September 30, 2001. LAS fees charged decreased \$14.8 million or 35.8% from \$41.3 million in the nine months ended September 30, 2000 to \$26.5 million in the nine months ended September 30, 2001.

Annual renewal revenues increased by \$2.3 million or 3.9% from \$59.3 million for the nine months ended September 30, 2000 to \$61.6 million for the nine months ended September 30, 2001.

Other Revenues

Other revenues for the nine months ended September 30, 2001 totaled \$42.6 million, up from \$19.6 million in the nine months of 2000, an increase of \$23.0 million or 117.3%. This growth was primarily due to increased trademark and licensing revenues related to the Nasdaq-100 Trust and related products. Nasdaq earns revenues based on the licensing of the Nasdaq brand name as well as the asset size of the Nasdaq-100 Trust, a unit investment trust that holds shares of the top 100 U.S. and international non-financial stocks listed on The Nasdaq Stock Market that comprise the Nasdaq-100 Index.

Direct Expenses

Direct expenses increased \$141.5 million or 41.3% to \$484.1 million for the nine months ended September 30, 2001 from \$342.6 million for the nine months ended September 30, 2000.

Compensation and benefits expense increased to \$131.1 million for the nine months ended September 30, 2001 from \$91.9 million for the nine months ended September 30, 2000, an increase of \$39.2 million or 42.7%. This increase is due primarily to the transfer of positions from the NASD associated with the Restructuring and new positions required to support strategic initiatives. It also includes severance and outplacement expenses associated with the staff reduction made during the period. In response to softening market conditions, Nasdaq implemented a staff reduction plan in June 2001 that eliminated 137 positions, or approximately 10% of the workforce.

Marketing and advertising expense decreased to \$17.6 million for the nine months ended September 30, 2001 from \$32.0 million for the nine months ended September 30, 2000, a decrease of \$14.4 million or 45.0%, due to a reduced spring campaign and the postponement of the fall advertising campaign.

Depreciation and amortization expense increased \$20.0 million or 43.9% to \$65.6 million for the nine months ended September 30, 2001 from \$45.6 million for the nine months ended September 30, 2000 due to a higher overall asset base to support current initiatives, such as SuperMontage and Primex.

Professional and contract services expense increased to \$54.4 million for the nine months ended September 30, 2001 from \$36.9 million for the nine months ended September 30, 2000, an increase of \$17.5 million or 47.4%, in support of SuperMontage and Primex development, and future technology

design planning.

Computer operations and data communications expense increased \$33.4 million or 33.9% to \$131.9 million for the nine months ended September 30, 2001 from \$98.5 million for the nine months ended September 30, 2000. The computer operations component of the costs increased \$6.5 million from the nine months ended September 30, 2000 to the nine months ended September 30, 2001 due to increases in maintenance to support a higher asset base. Data communications costs increased \$26.9 million due to increased charges for upgraded bandwidth and processing speed that is commensurate with the increase in Nasdaq Workstation II revenues as discussed above.

Bad debt expense increased to \$14.5 million for the nine months ended September 30, 2001 from \$3.4 million for the nine months ended September 30, 2000 reflecting a \$7.5 million reserve relating to the bankruptcy filing by Bridge Information Systems, Inc. Prior to its bankruptcy filing, Bridge Information Systems, Inc. was a vendor of Nasdaq's market information. The remaining increase in bad debt expense was commensurate with the growth of Nasdaq's accounts receivable.

Occupancy expense increased \$8.4 million or 73.0% to \$19.9 million for the nine months ended September 30, 2001 from \$11.5 million for the nine months ended September 30, 2000. This increase was primarily due to Nasdaq's new corporate offices, located at One Liberty Plaza, New York, New York, new office space in Trumbull, Connecticut and the amortization of leasehold improvements to the Rockville, Maryland data center. These increased costs were slightly offset by an abatement due to closure of One Liberty Plaza on September 11th.

The remaining direct expenses increased \$26.4 million or 115.8% to \$49.2 million for the nine months ended September 30, 2001 from \$22.8 million for the nine months ended September 30, 2000, due to increased travel and supply expenses from the expanded Nasdaq workforce, a write-off related to the impairment of certain assets taken during the second quarter of 2001, disaster expenses related to the terrorist attacks and losses in foreign equity investments.

Support Costs

Support costs from related parties decreased by \$14.1 million to \$76.1 million for the nine months ended September 30, 2001 from \$90.2 million for the nine months ended September 30, 2000. Surveillance and other regulatory charges from NASDR increased by \$2.3 million to \$61.7 million for the nine months ended September 30, 2001 from \$59.4 million for the nine months ended September 30, 2000. Support costs from the NASD decreased \$9.4 million to \$25.3 million for the nine months ended September 30, 2001 from \$34.7 million for the nine months ended September 30, 2000. In addition, contributing to the decrease was an increase in the amount of Nasdaq costs charged to the American Stock Exchange LLC of \$7.0 million to \$10.9 million for the nine months ended September 30, 2001 from \$3.9 million for the nine months ended September 30, 2000. Amounts charged to related parties are netted against charges from related parties in the "Support costs from related parties, net" line item on the Condensed Consolidated Statements of Income.

Income Taxes

Nasdaq's income tax provision was \$44.3 million for the nine months ended September 30, 2001 compared to \$84.0 million for the nine months ended September 30, 2000. The effective tax rate was 45.2% for the nine months ended September 30, 2001 compared to 42.5% for the nine months ended September 30, 2000. The increase in Nasdaq's effective tax rate was primarily due to its foreign losses for which no tax benefit is taken, offset by the recognition of permanent items for tax advantaged items such as tax-exempt interest and dividends received deductions.

Year Ended December 31, 2000 Compared to Year Ended December 31, 1999

Nasdaq reported net income of \$23.3 million for the year ended December 31, 2000, compared to net income of \$86.1 million for the year ended December 31, 1999. Compared to pro forma net income for the year ended December 31, 2000 of \$124.4 million, excluding the cumulative effect of the change in accounting principle, net income increased by \$54.5 million or 77.9% from pro forma net income of \$69.9 million for the year ended December 31, 1999.

Revenues

Total revenues were \$832.7 million for the year ended December 31, 2000, representing an increase of \$198.5 million or 31.3% from \$634.2 million for the year ended December 31, 1999. This increase was largely driven by growth in trading volumes. Overall average daily share volume on The Nasdaq Stock Market increased by 64.5%, from 1.07 billion shares per day for the year ended December 31, 1999 to 1.76 billion shares per day for the year ended December 31, 2000. Pursuant to the change in accounting principle for Corporate Client Group services revenues adopted as of 2000, pro forma total revenues for 1999 would have been \$607.2 million and the increase for 2000 would have been \$225.5 million, or 37.1%.

Transaction Services

For the year ended December 31, 2000 transaction services revenues of \$395.1 million increased \$111.4 million or 39.3% from \$283.7 million for the year ended December 31, 1999.

SelectNet provided revenues of \$113.5 million, an increase of \$30.4 million or 36.6% for the year ended December 31, 2000 from \$83.1 million for the year ended December 31, 1999, due to an increase in trade volume.

SOES provided revenues of \$32.2 million for the year ended December 31, 2000, an increase of \$12.5 million or 63.5% from \$19.7 million for the year ended December 31, 1999, due to an increase in volume of SOES executions.

ACT provided revenues of \$100.0 million for the year ended December 31, 2000, an increase of \$31.9 million or 46.8% from \$68.1 million for the year ended December 31, 1999, due to increases in trade volume.

The Nasdaq Workstation II, along with application programming interfaces, provided over \$121.6 million in revenues for the year ended December 31, 2000, an increase of \$34.0 million or 38.8% from \$87.6 million in revenues for the year ended December 31, 1999. This increase is due to a larger customer base.

Market Information Services

For the year ended December 31, 2000, market information revenues of \$258.3 million increased \$71.8 million or 38.5% from \$186.5 million for the year ended December 31, 1999.

Level 1 revenues increased by approximately \$24.6 million or 18.2% to \$159.6 million for the year ended December 31, 2000 from \$135.0 million for the year ended December 31, 1999, primarily driven by an increase in demand for non-professional services including both per month and per query usage.

Nasdaq Quotation Dissemination Service revenues increased by approximately \$42.3 million or 130.2% to \$74.8 million for the year ended December 31, 2000 from \$32.5 million for the year ended December 31, 1999. This increase is due to growth in the customer population.

Nasdaq InterMarket tape revenues increased by approximately \$4.7 million or 27.3% to \$21.9 million for the year ended December 31, 2000, from \$17.2 million for the year ended December 31, 1999.

Corporate Client Group Services

Corporate Client Group services revenues decreased from \$163.4 million for the year ended December 31, 1999 to \$149.3 million for the year ended December 31, 2000, a decrease of \$14.1 million or 8.6%. Initial listing revenues decreased from \$54.9 million to \$33.9 million, a decrease of \$21.0 million or 38.3%, due to the effect of the change in accounting principle. Revenue related to LAS increased from \$29.6 million to \$33.6 million, an increase of \$4.0 million or 13.5%, driven by an increase in the number of LAS events offset by the change in accounting principle. Annual listing and other issuer listing revenues increased from \$78.9 million to \$81.8 million, an increase of \$2.9 million or 3.7%.

Pro forma Corporate Client Group services revenues increased from \$136.4 million for the year ended December 31, 1999, to \$149.3 million for the year ended December 31, 2000, an increase of \$12.9 million or 9.5%. Actual initial listing and LAS fees charged during 2000 increased due to higher IPO activity and capital raising activity by current issuers. Revenue related to LAS increased from \$30.0 million to \$33.6 million, an increase of \$3.6 million or 12.0%. Initial listing revenues increased from \$27.4 million to \$33.9 million, an increase of \$6.5 million or 23.7%. Pro forma amounts assume the change in accounting principle adopted as of January 1, 2000 is applied retroactively.

Other Revenues

Other revenues for fiscal year 2000 totaled \$30.0 million, up significantly from \$0.6 million in 1999. This growth is attributable to increased trademark and licensing revenues, new banner advertising revenues for Nasdaq.com, revenue generated by the newly opened Nasdaq MarketSite(sm) ("MarketSite"), and revenues related to Nasdaq Tools, which was acquired in 2000.

Direct Expenses

Direct expenses increased \$123.7 million or 32.2% to \$508.2 million for the year ended December 31, 2000 from \$384.5 million for the year ended December 31, 1999.

Compensation and benefits costs increased \$39.2 million or 40.0% to \$137.3 million for the year ended December 31, 2000 from \$98.1 million for the year ended December 31, 1999. This increase is primarily due to growth in the number of employees required to support business and operational demands created by the rapid expansion of the market during 2000. The number of employees increased by 171 or 16.4% to 1,214 employees as of December 31, 2000, from 1,043 employees as of December 31, 1999. As a result, salaries for the period increased \$20.8 million. Also contributing were increases in incentive compensation and retirement and savings plan expenses. Approximately 30% of the overall increase in compensation and benefits costs related to the transfer of directors and executive officers from the NASD to Nasdaq as well as new executive officer hires and existing directors and executive officers.

Marketing and advertising costs decreased \$16.9 million or 26.9% to \$45.9 million for the year ended December 31, 2000 from \$62.8 million for the year ended December 31, 1999, primarily due to a decrease in scale of the media advertising campaign in the fall of 2000 as compared to the fall campaign in 1999. During 1999, additional media events were scheduled to establish the Nasdaq and Amex brand following the NASD's 1998 acquisition of Amex.

Depreciation and amortization expense increased \$21.9 million or 50.1% to \$65.6 million for the year ended December 31, 2000 from \$43.7 million for the year ended December 31, 1999, primarily due to purchases of computer

hardware necessary to handle the growth in trading volumes. Also contributing to this increase is the opening of the MarketSite and broadcast facility located in Times Square, New York.

Professional and contract services costs increased \$26.2 million or 74.2% to \$61.5 million for the year ended December 31, 2000 from \$35.3 million for the year ended December 31, 1999. The main projects driving this increase include Nasdaq Global and related international initiatives, design costs related to Nasdaq.com and Nasdaq on-line, vendor services for the new MarketSite and broadcast facility located in Times Square, New York, and helpdesk and desktop support costs provided by Electronic Data Systems Corporation.

Computer operations and data communications costs increased \$37.7 million or 37.5% to \$138.2 million for the year ended December 31, 2000 from \$100.5 million for the year ended December 31, 1999. This overall increase was required to support additional capacity. The Nasdaq Stock Market's total share volume for the year ended December 31, 2000 increased approximately 64.5% compared to the year ended December 31, 1999. The computer operations and data communications complex was upgraded to provide the capability for processing four billion shares on a peak day. The computer operations component of the costs increased \$14.4 million between 1999 and 2000 to support this capacity. This increase resulted from help desk and network license increases of \$2.3 million, hardware maintenance increases of \$5.4 million, Tandem lease increases of \$1.3 million, software leases and maintenance increases of \$3.9 million, and computer supplies and cabling increases of \$1.5 million. Data communications costs increased \$23.3 million due to the increased Enterprise Wide Network II charges from WorldCom for T-1 communications lines for new customers and upgraded bandwidth and processing speed.

The remaining direct expenses increased \$15.4 million or 34.8% to \$59.6 million for the year ended December 31, 2000 from \$44.2 million for the year ended December 31, 1999. This was primarily due to an increase in occupancy costs as a result of the MarketSite and broadcast facility in Times Square, New York, new office space in Trumbull, Connecticut, increased travel to support international initiatives, and losses in foreign equity investments.

Support Costs

Support costs from related parties increased by \$13.3 million or 11.5% to \$128.5 million for the year ended December 31, 2000 from \$115.2 million for the year ended December 31, 1999. Specifically, Nasdaq incurred increased surveillance and other regulatory charges from NASDR. Surveillance and other regulatory charges are comprised primarily of the costs relating to technological investments for market surveillance as well as direct costs for enforcement and other regulation services. Surveillance and other regulatory charges from NASDR increased by \$14.7 million or 22.6% to \$79.8 million for the year ended December 31, 2000 from \$65.1 million for the year ended December 31, 1999. Additionally, contributing to the increase is a decline in the amount of Nasdaq costs charged to Amex of \$9.1 million or 65.0% to \$4.9 million for the year ended December 31, 2000 from \$14.0 million for the year ended December 31, 1999. Nasdaq provides systems and technology support to Amex in the form of market data storage and dissemination, web development and hosting and customer relationship management application support. The support cost increases are partially offset by a decrease in support costs from the NASD of \$10.5 million or 16.4% to \$53.6 million for the year ended December 31, 2000 from \$64.1 million for the year ended December 31, 1999, primarily since support of Nasdaq's computer desktop operations was outsourced to Electronic Data Systems effective June 1, 1999. Prior to June 1, 1999, the NASD provided these services to Nasdaq. The NASD provides certain administrative, corporate and infrastructure services, including cash management and other financial services, real estate, legal and human resource services.

Income Taxes

Nasdaq's income tax provision was \$90.5 million for 2000 compared to \$58.4 million for 1999. The effective tax rate was 42.1% for 2000 compared to 40.4% for 1999. The increase in Nasdaq's effective tax rate was primarily due to an increase in its foreign losses for which no tax benefit is taken.

Year Ended December 31, 1999 Compared to Year Ended December 31, 1998

Nasdaq reported net income of \$86.1 million for the year ended December 31, 1999, compared to net income of \$35.0 million for the year ended December 31, 1998. Compared to pro forma net income for the year ended December 31, 1999 of \$69.9 million, net income increased by \$38.6 million or 123.2% from pro forma net income of \$31.3 million for the year ended December 31, 1998.

Revenues

Total revenues increased \$183.4 million or 40.7% to \$634.2 million for the year ended December 31, 1999 from \$450.8 million for the year ended December 31, 1998. Results for the year ended December 31, 1999 reflect the strong U.S. equity market performance experienced as evidenced by an increase in average daily share volume on The Nasdaq Stock Market of approximately 34% as compared to the previous year. Pursuant to the change in accounting principle for Corporate Client Group services revenue adopted as of 2000, total revenues for 1999 and 1998 would have been \$607.2 million and \$444.8 million, respectively, and the increase would have been \$162.4 million or 36.5%.

Transaction Services

Transaction services revenues of \$283.7 million increased \$123.2 million or 76.8% for the year ended December 31, 1999 from \$160.5 million for the year

ended December 31, 1998, primarily due to an increase in average daily trade volume of 116.7% to over 1.3 million average trades per day during the year ended December 31, 1999 as compared to over 0.6 million average trades per day during the year ended December 31, 1998.

SelectNet provided revenues of \$83.1 million, an increase of \$40.7 million or 96.0% for the year ended December 31, 1999 from \$42.4 million for the year ended December 31, 1998, due to an increase in trade volume.

SOES provided revenues of \$19.7 million for the year ended December 31, 1999, an increase of \$7.3 million or 58.9% from \$12.4 million for the year ended December 31, 1998, due to an increase in volume of SOES executions.

ACT provided revenues of \$68.1 million for the year ended December 31, 1999, an increase of \$29.9 million or 78.3% from \$38.2 million for the year ended December 31, 1998, due to increases in trade volume.

The Nasdaq Workstation II, along with application programming interfaces, provided over \$87.6 million in revenues for the year ended December 31, 1999, an increase of \$38.3 million or 77.7% from \$49.3 million in revenues for the year ended December 31, 1998. The increase was driven by growth in the number of deployed workstations as well as higher fees associated with increased network capacity.

Market Information Services

Market information services revenues of \$186.5 million increased \$33.8 million or 22.1% for the year ended December 31, 1999 from \$152.7 million for the year ended December 31, 1998.

Nasdaq Level 1 services revenues increased by approximately \$27.7 million or 25.8% to \$135.0 million for the year ended December 31, 1999 from \$107.3 million for the year ended December 31, 1998, primarily driven by increases in both professional and non-professional users.

Nasdaq Quotation Dissemination Service revenues increased by approximately \$11.3 million or 53.3% to \$32.5 million for the year ended December 31, 1999 from \$21.2 million for the year ended December 31, 1998. This increase is due to growth in the number of customers.

Nasdaq InterMarket tape revenues decreased by approximately \$4.1 million or 19.2% to \$17.2 million for the year ended December 31, 1999 from \$21.3 million for the year ended December 31, 1998. This decrease is due to the initiation of a tape revenue sharing program whereby Nasdaq shares 40% of its tape revenue with qualifying market participants.

Corporate Client Group Services

Corporate Client Group services revenues increased from \$137.3 million for the year ended December 31, 1998 to \$163.4 million for the year ended December 31, 1999, an increase of \$26.1 million or 19.0%. Initial listing revenues increased from \$29.8 million to \$54.9 million, an increase of \$25.1 million or 84.2%, due to an increase in the number and size of IPOs, spin-offs, and movement of issuers into The Nasdaq Stock Market from other markets. Revenue related to LAS increased from \$28.2 million to \$29.6, an increase of \$1.4 million or 5.0%, driven by an increase in the number of events. Annual listing and other listing revenues decreased from \$79.3 million to \$78.9 million, a decrease of \$0.4 million or 0.5%.

Pro forma Corporate Client Group services revenues increased from \$131.3 million for the year ended December 31, 1998, to \$136.4 million for the year ended December 31, 1999, an increase of \$5.1 million or 3.9%. Revenue related to initial listings increased from \$23.8 million to \$27.4 million, an increase of \$3.6 million or 15.1% and revenue related to LAS increased from \$28.1 million to \$30.0 million, an increase of \$1.9 million or 6.8%. Pro forma amounts assume the change in accounting principle adopted as of January 1, 2000 is applied retroactively.

Direct Expenses

Direct expenses increased \$88.2 million or 29.8% to \$384.5 million for the year ended December 31, 1999 from \$296.3 million for the year ended December 31, 1998.

Compensation and benefits costs increased \$19.5 million or 24.8% to \$98.1 million for the year ended December 31, 1999 from \$78.6 million for the year ended December 31, 1998, primarily due to an increase in headcount of approximately 229 employees to 1,043 employees as of December 31, 1999, from 814 employees as of December 31, 1998, a 28.1% increase in headcount. The new positions were created to support expanded market operations.

Marketing and advertising costs increased \$20.3 million or 47.8% to \$62.8 million for year ended December 31, 1999 from \$42.5 million for the year ended December 31, 1998, primarily due to an extensive media advertising campaign run during the fall of 1999 to promote brand-awareness.

Depreciation and amortization expense increased \$8.7 million or 24.9% to \$43.7 million for the year ended December 31, 1999 from \$35.0 million for the year ended December 31, 1998, primarily due to purchases of computer hardware necessary to handle the growth in The Nasdaq Stock Market trading volume.

Professional and contract services costs increased \$0.2 million or 0.6% to \$35.3 million for the year ended December 31, 1999, from \$35.1 million for the year ended December 31, 1998. The main projects were development costs related to the New Amex Equity Book and the Integrated Quote Management System. The New Amex Equity Book displays to market professionals the aggregate size and price of equity orders on the book away from the best

bid and offer. The costs incurred by Nasdaq in assisting Amex in the development of the New Amex Equity Book are charged back to Amex as support costs provided to related parties. For the year ended December 31, 1999, Nasdaq expensed approximately \$11.7 million of the New Amex Equity Book development costs that would have otherwise been capitalized as an internally developed software cost in the fourth quarter of 1999 after a determination not to implement the system. The Integrated Quote Management System was intended to replace The Nasdaq Stock Market's current quotation environment, consolidate Nasdaq's various quotation applications and enable Nasdaq to handle decimalization, an industry-wide initiative to convert securities systems pricing figures from fractions to decimals. In May 2000, it was determined that designing the current system to handle the decimalization would present lower technological risk than would further work on the Integrated Quote Management System.

Computer operations and data communications costs increased \$28.4 million or 39.4% to \$100.5 million for the year ended December 31, 1999 from \$72.1 million for the year ended December 31, 1998, primarily due to the initial installation of circuits for the Enterprise Wide Network II in 1998. The increase in Enterprise Wide Network II installations in 1998 resulted in increased recurring costs in 1999 for the communications lines as customers converted from Enterprise Wide Network I circuits to the Enterprise Wide Network II T-1 lines at nearly double the cost.

The remaining direct expenses increased \$11.1 million or 33.5% to \$44.2 million for the year ended December 31, 1999 from \$33.1 million for the year ended December 31, 1998. This was primarily due to an increase in other direct expenses that includes a \$5.6 million increase in the allowance related to performance under the Enterprise Wide Network II contract with WorldCom Inc. Nasdaq partnered with WorldCom Inc. to deploy a state of the art communications infrastructure to link Nasdaq's computerized market facilities to the market participants. WorldCom Inc. provides networking and management services to the Enterprise Wide Network II in return for revenues generated by the Enterprise Wide Network II and a deposit fee paid by Nasdaq. Although the deposit will be refunded if Nasdaq attains certain revenue targets, the allowance is established for any unrecoverable amounts. Other direct expenses also increased due to Nasdaq's contribution to The Nasdaq Stock Market Educational Foundation, Inc. of \$10.0 million for the year ended December 31, 1999 compared to \$5.0 million for the year ended December 31, 1998. Contributions to The Nasdaq Stock Market Educational Foundation, Inc. were made in the fourth quarters of the years ended December 31, 1998 and December 31, 1999. The foundation is a non-profit membership organization established and operated exclusively to advance educational purposes, principally involving the study of business, economics, and finance.

Support Costs

Support costs from related parties increased by \$14.4 million or 14.3% to \$115.2 million for the year ended December 31, 1999 from \$100.8 million for the year ended December 31, 1998, primarily due to the increase in support charges from the NASD which largely represent costs incurred by the NASD to develop and maintain technology on behalf of Nasdaq. Specifically, support costs from the NASD increased by \$11.5 million or 21.9% to \$64.1 million for the year ended December 31, 1999 from \$52.6 million for the year ended December 31, 1998, primarily due to an increase in costs as a result of Nasdaq Japan, various Year 2000 initiatives, and an increase in overall network environment costs necessary to support the increase in trade volume. In addition, Nasdaq incurred surveillance and other regulatory charges from NASDR. Surveillance and other regulatory charges are comprised primarily of the costs relating to technological investments for market surveillance as well as direct costs for enforcement and other regulation services. Surveillance and other regulatory charges from NASDR increased by \$7.8 million or 13.6% to \$65.1 million for the year ended December 31, 1999, from \$57.3 million for the year ended December 31, 1998. Offsetting these higher expenses were the \$14.0 million charged to Amex as support costs provided to related parties in the year ended December 31, 1999. This amount, which increased \$4.9 million or 53.8% from \$9.1 million for the year ended December 31, 1998, consists of \$9.2 million of non-technology services provided such as marketing services performed by Nasdaq on behalf of Amex as well as \$4.8 million of technological support related to the development of new systems such as the New Amex Equity Book and the enhancement of existing Amex systems.

Income Taxes

Nasdaq's income tax provision was \$58.4 million for 1999 compared to \$26.0 million for 1998. The effective tax rate was 40.4% for 1999 compared to 42.7% for 1998.

Liquidity and Capital Resources

September 30, 2001 Compared to December 31, 2000

Cash and cash equivalents and available-for-sale securities totaled \$558.6 million at September 30, 2001, an increase of \$64.3 million from \$494.3 million at December 31, 2000. Working capital increased \$102.1 million to \$534.9 million as of September 30, 2001, from \$432.8 million as of December 31, 2000.

Cash and cash equivalents increased \$66.8 million from December 31, 2000 to \$329.1 million as of September 30, 2001, primarily due to cash provided by operating activities of \$95.8 million and cash provided by financing activities of \$43.5 million, partially offset by cash used in investing activities of \$72.5 million.

For the nine months ended September 30, 2001, operating activities provided net cash inflows of \$95.8 million, primarily due to cash received from

customers of \$629.0 million less cash paid to suppliers, employees, and related parties of \$533.8 million and income taxes paid of \$26.5 million.

Net cash used in investing activities was \$72.5 million for the nine months ended September 30, 2001, due in part to capital expenditures related to SuperMontage, Primex, global initiatives and general capacity increases. The remaining cash used in investing activities is attributable to purchases of investments with the proceeds of the second phase of Nasdaq's private placement of Common Stock that closed in January 2001 and receipts from the sales and maturities of investments.

Cash provided by financing activities was approximately \$43.5 million for the nine months ended September 30, 2001. On May 3, 2001, Nasdaq sold Subordinated Debentures to Hellman & Friedman, yielding gross proceeds of approximately \$240.0 million. Nasdaq used the proceeds to repurchase 18,461,538 shares of Common Stock from the NASD for \$13.00 per share for an aggregate purchase price of approximately \$240.0 million. During this period, Nasdaq also received net proceeds from Phase II that equaled approximately \$63.7 million and repaid approximately \$20.0 million to the venture partners who participated in Nasdaq Europe Planning Company Limited. Nasdaq will use the remaining proceeds from its financing activities to invest in new technology, implement and form strategic alliances, implement competitive pricing of its services and build its brand through marketing programs.

Nasdaq believes that the liquidity provided by existing cash and cash equivalents, investments, and cash generated from operations will provide sufficient capital to meet operating requirements. Nasdaq has generated positive cash flows annually in each of the five years since 1996 and believes that it will continue to do so in the future to meet both short and long term operating requirements.

December 31, 2000 Compared to December 31, 1999

Cash and cash equivalents and available for sale securities totaled \$494.3 million as of December 31, 2000, an increase of \$330.1 million from \$164.2 million as of December 31, 1999. Working capital increased \$278.4 million to \$432.8 million as of December 31, 2000, from \$154.4 million as of December 31, 1999.

Cash and cash equivalents increased \$251.7 million to \$262.3 million as of December 31, 2000, primarily due to cash provided by financing activities as a result of the net proceeds received from Phase I that equalled \$253.3 million.

For the year ended December 31, 2000, operating activities provided net cash inflows of \$249.3 million, primarily due to cash received from customers of \$713.4 million less cash paid to suppliers, employees, and related parties of \$403.8 million and income taxes paid of \$101.2 million.

Net cash used in investing activities was \$286.0 million for the twelve months ended December 31, 2000, due in part to capital expenditures to complete construction of the MarketSite and broadcast facility in Times Square and the acquisition of Financial Systemware, Inc. (now known as Nasdaq Tools). In addition, Nasdaq continued to make capital investments in technology to continue to support Nasdaq's system capacity needs. The remaining cash used in investing activities is attributable to purchases of investments with the proceeds of the Phase I offering that exceeded the sales and maturities of investments.

Cash provided by financing activities was \$288.3 million as of December 31, 2000, primarily due to the net proceeds received from Phase I that equalled approximately \$253.3 million. Nasdaq will use the proceeds to invest in new technology, implement and form strategic alliances and build its brand identity through marketing programs. Also contributing to cash provided from financing activities was \$30.0 million in capital contributions to Nasdaq Europe Planning Company Limited from the minority shareholders.

Additionally, in connection with the closing of Phase II on January 18, 2001, Nasdaq yielded net proceeds of approximately \$63.7 million. Nasdaq has generated positive cash flows annually in each of the five years included in this filing and believes it will continue to do so in the future to meet both short and long term operating requirements.

December 31, 1999 Compared to December 31, 1998

Cash and cash equivalents and available for sale securities totaled \$164.2 million as of December 31, 1999, an increase of \$31.6 million from \$132.6 million as of December 31, 1998. Working capital increased \$33.6 million to \$154.4 million as of December 31, 1999, from \$120.8 million as of December 31, 1998.

Cash and cash equivalents increased \$7.8 million to \$10.6 million as of December 31, 1999, primarily due to cash provided by operating activities of \$134.6 million, substantially offset by cash used in investing activities of \$130.7 million.

In the year ended December 31, 1999, operating activities provided net cash inflows of \$134.6 million, primarily due to cash received from customers of \$527.9 million less cash paid to suppliers, employees, and related parties of \$352.9 million.

Net cash used in investing activities was \$130.7 million in the year ended December 31, 1999, due in part to an increase in capital expenditures related to construction of the new MarketSite and broadcast facility in Times Square in New York City totaling approximately \$31.0 million. In addition, Nasdaq made capital investments of approximately \$60.0 million in technology to continue to support Nasdaq's system capacity needs. The

remaining cash used in investing activities is attributable to purchases of investments that exceeded the proceeds from sales and maturities of investments.

Nasdaq had no significant financing activities during the year ended December 31, 1999, as the cash generated by operations was sufficient to fund planned growth and capital requirements.

Quantitative and Qualitative Disclosure About Market Risk

Market risk represents the risks of changes in the value of a financial instrument, derivative or non-derivative, caused by fluctuations in interest rates, foreign exchange rates, and equity prices. As of December 31, 2000, Nasdaq's investment portfolio consists primarily of floating rate securities, obligations of U.S. Government sponsored enterprises, municipal bonds, and commercial paper. Nasdaq's primary market risk is associated with fluctuations in interest rates and the effects that such fluctuations may have on its investment portfolio and outstanding debt. The weighted average maturity of the fixed income portion of the portfolio is 1.05 years as of December 31, 2000. Nasdaq's outstanding debt obligation specifies a fixed interest rate until May 2007 and a floating interest rate based on the lender's cost of funds until maturity in 2012. The investment portfolio is held primarily in short-term investments with maturities averaging approximately one year. Therefore, management does not believe that a 100 basis point fluctuation in market interest rates will have a material effect on the carrying value of Nasdaq's investment portfolio or outstanding debt, or on Nasdaq earnings or cash flows. Nasdaq's exposure to these risks has not materially changed since December 31, 2000.

Recent Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 provides a comprehensive and consistent standard for the recognition and measurement of derivatives and hedging activities. In June 1999, the FASB issued SFAS No. 137 "Accounting for Derivative Instruments and Hedging Activities-Deferral of the Effective Date of FASB Statement No. 133" that defers the date of adoption of SFAS No. 133 such that it is effective for fiscal years beginning after June 15, 2000. In June 2000, the FASB issued SFAS No. 138 "Accounting for Certain Derivative Instruments and Certain Hedging Activities-an Amendment of FASB Statement No. 133" that addresses a limited number of issues causing implementation difficulties for a large number of entities preparing to apply SFAS No. 133. Nasdaq adopted SFAS 133 with no transition adjustments recorded and no impact on the financial statements.

In June 2001, the FASB issued SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets," ("FASB 142") effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment tests in accordance with the rules. Other intangible assets will continue to be amortized over their useful lives. Nasdaq will apply the new rules on accounting for goodwill and other intangible assets beginning in the first quarter of 2002. Application of the nonamortization provisions of FASB 142 is not expected to have a material impact to Nasdaq's financial position or results of operations. During 2002, Nasdaq will perform the first of the required impairment tests of goodwill and indefinite lived intangible assets as of January 1, 2002. Nasdaq does not expect the effect of these tests to have a material impact on its earnings and financial position.

Item 3. Properties.

The following is a description of Nasdaq's material properties as of June 30, 2001.

Location	Use	Size (approximate, in square feet)	Type of Possession
Gaithersburg, Maryland	General office space	66,000	Leased by the NASD. Nasdaq reimburses the NASD for the amounts due under the lease
New York, New York	Location of MarketSite	26,000	Leased by the NASD, which will be making an assignment to Nasdaq
New York, New York	Nasdaq headquarters	78,000	Sublease from the NASD
New York, New York	General office space	24,000	Leased by Nasdaq
Rockville, Maryland	Location of Nasdaq data center	110,000	Ownership will be transferred to Nasdaq by the NASD in exchange for the transfer by Nasdaq of a 58,000 s.f. office building to the NASD
Rockville, Maryland	General office space	78,000	Leased by Nasdaq effective October, 2001

Trumbull, Connecticut	Location for Nasdaq's principal technology services, systems engineering and market operations	162,000	Owned by Nasdaq
Trumbull, Connecticut	General office space	101,000 (two locations)	Leased by Nasdaq
Washington, D.C.	General office space	48,000 (three locations)	Occupied pursuant to a shared facilities agreement with the NASD

In addition to the above, Nasdaq leases administrative and sales facilities in Menlo Park, California, London, England, Sao Paulo, Brazil, Montreal, Canada and Shanghai, China.

Item 4. Security Ownership of Certain Beneficial Owners and Management.

The following table sets forth the beneficial ownership of Nasdaq's Common Stock by all persons who are beneficial owners of more than 5% of the Common Stock and the beneficial ownership of Nasdaq's Common Stock and Nasdaq Japan's common stock by (1) each director, (2) Nasdaq's Chief Executive Officer ("CEO") and the four most highly compensated executive officers other than the CEO, who were serving as executive officers at the end of 2000, and (3) all directors and executive officers as a group. Except as otherwise indicated, Nasdaq believes that the beneficial owners listed below, based on information furnished by such owners, will have sole investment and voting power with respect to such shares, subject to community property laws where applicable. Unless otherwise indicated, the business address of such persons is One Liberty Plaza, New York, New York, 10006. As of November 15, 2001, approximately 111,568,868 shares of Common Stock were outstanding, and approximately 56,400 shares of Nasdaq Japan common stock were outstanding after giving effect to a four-for-one stock split of Nasdaq Japan's shares that occurred on April 18, 2001.

Name of beneficial owner	Common Stock Beneficially Owned	Percent of Class	Common Stock of Nasdaq Japan Beneficially Owned	Percent of Class
National Association of Securities Dealers, Inc. 1735 K Street, N.W. Washington, D.C. 20006	76,995,171(1)	69.0	-	-
Hellman & Friedman Capital Partners IV, L.P. One Maritime Plaza 12th Floor San Francisco, CA 94111	12,000,000(2)	9.7	-	-
Dr. Josef Ackermann	-(3)	-	-	-
H. Furlong Baldwin	-	-	-	-
Frank E. Baxter	50,000(4)	*	-	-
Michael Casey	-(5)	-	-	-
Michael W. Clark	-(6)	-	-	-
William S. Cohen	-	-	-	-
F. Warren Hellman	12,000,000(2)	9.7	-	-
John D. Markese	15,000	*	-	-
E. Stanley O'Neal	-(7)	-	-	-
Vikram S. Pandit	-(8)	-	-	-
Kenneth D. Pasternak	250,000(9)	*	-	-
David S. Pottruck	-(10)	-	-	-
Arthur Rock	200,000(11)	*	-	-
Richard C. Romano	40,000(12)	*	-	-
Hardwick Simmons	-	-	-	-
Arvind Sodhani	-(13)	-	-	-
Sir Martin Sorrell	-	-	-	-
Frank G. Zarb	1,074,000(14)	*	140(15)	*
Alfred R. Berkeley, III	17,900(16)	*	-	-
J. Patrick Campbell	32,000(17)	*	-	-
John L. Hilley	30,000(18)	*	1,900(19)	3.4
Richard G. Ketchum	40,000(20)	*	76(21)	*
All directors and executive officers as a group (31 persons)	13,899,882(22)	11.2(23)	2,268(24)	3.9

* Less than one percent

(1) Includes approximately 43,227,176 shares of Common Stock underlying the unexercised, unexpired outstanding warrants.

(2) Hellman & Friedman owns the Subordinated Debentures. H&F Investors IV, LLC ("H&F IV"), is the general partner of each of the Hellman & Friedman limited partnerships. The Subordinated Debentures are currently convertible into 12,000,000 shares of Common Stock, subject to adjustment, in general, for any stock split, dividend, combination, recapitalization or other similar event. The investment decisions of each of the Hellman & Friedman limited partnerships are made by the investment committee of H&F IV, which indirectly exercises sole voting and investment power with respect to the Subordinated Debentures. Mr. Hellman is one of nine members of the

investment committee. Mr. Hellman disclaims beneficial ownership of the Subordinated Debentures except to the extent of his indirect pecuniary interest.

(3) Dr. Ackermann is head of Corporate and Institutional Clients Group of Deutsche Bank AG that, together with its affiliates, owns an aggregate of 1,522,300 shares of Common Stock. Dr. Ackermann disclaims beneficial ownership of such shares.

(4) The shares of Common Stock are held by The Baxter 1988 Trust, which Mr. Baxter controls. Mr. Baxter is the Chairman of the Jefferies Group, Inc. that, together with its affiliates, owns an aggregate of 115,912 shares of Common Stock. Mr. Baxter disclaims beneficial ownership of such shares.

(5) Mr. Casey is an officer of Starbucks Corporation that owns an aggregate of 10,000 shares of Common Stock. Mr. Casey disclaims beneficial ownership of such shares.

(6) Mr. Clark is an officer of Credit Suisse First Boston, Inc. that, together with its affiliates, owns 1,604,650 shares of Common Stock. Mr. Clark disclaims beneficial ownership of such shares.

(7) Mr. O'Neal is an officer of Merrill Lynch & Co. that, together with its affiliates, owns 1,875,000 shares of Common Stock. Mr. O'Neal disclaims beneficial ownership of such shares.

(8) Mr. Pandit is an officer of Morgan Stanley Dean Witter & Co. that, together with its affiliates, owns 1,126,200 shares of Common Stock. Mr. Pandit disclaims beneficial ownership of such shares.

(9) Mr. Pasternak is Chairman, CEO, and President of Knight Trading Group, Inc. that, together with its affiliates, owns an aggregate of 1,125,000 shares of Common Stock. Mr. Pasternak disclaims beneficial ownership of such shares.

(10) Mr. Pottruck is an officer of The Charles Schwab Corporation that, together with its affiliates, owns 1,125,000 shares of Common Stock. Mr. Pottruck disclaims beneficial ownership of such shares.

(11) The shares of Common Stock are held by The Rock 2000 Trust, of which Mr. Rock is the sole trustee and beneficiary.

(12) Includes an aggregate of 20,000 shares of Common Stock owned by Romano Brothers & Co. Mr. Romano is the President and majority stockholder of Romano Brothers & Co.

(13) Mr. Sodhani is an officer of Intel Corporation that owns 430,000 shares of Common Stock. Mr. Sodhani disclaims beneficial ownership of such shares.

(14) Represents 60,000 shares of restricted stock and options to purchase an aggregate of 1,014,000 shares of Common Stock issued under Nasdaq's Equity Incentive Plan, all of which became fully vested upon Mr. Zarb's resignation as Chairman of the Nasdaq Board on September 26, 2001.

(15) Represents options to purchase an aggregate of 140 shares of Nasdaq Japan common stock that were granted by Nasdaq Global (50%) and SOFTBANK (50%).

(16) Includes 15,900 shares of restricted stock issued under Nasdaq's Equity Incentive Plan that have not yet vested. Under the terms of this plan, Mr. Berkeley has the right to direct the voting of such shares.

(17) Includes 30,000 shares of restricted stock issued under Nasdaq's Equity Incentive Plan that have not yet vested. Under the terms of this plan, Mr. Campbell has the right to direct the voting of such shares.

(18) Represents 30,000 shares of restricted stock issued under Nasdaq's Equity Incentive Plan that have not yet vested. Under the terms of this plan, Mr. Hilley has the right to direct the voting of such shares.

(19) Represents shares of restricted stock.

(20) Represents 40,000 shares of restricted stock issued under Nasdaq's Equity Incentive Plan that have not yet vested. Under the terms of this plan, Mr. Ketchum has the right to direct the voting of such shares.

(21) Represents options to purchase an aggregate of 76 shares of Nasdaq Japan common stock that were granted by Nasdaq Global (50%) and SOFTBANK (50%).

(22) Includes the Subordinated Debentures owned by Hellman & Friedman. See Note 2 above.

(23) Assumes the full conversion of the Subordinated Debentures.

(24) Includes options to purchase an aggregate of 368 shares of Nasdaq Japan common stock that were granted by Nasdaq Global (50%) and SOFTBANK (50%).

Item 5. Directors and Executive Officers.

The directors and executive officers of Nasdaq are as follows:

Name

Age

Position

Name	Age	Position
Hardwick Simmons	61	Chairman of the Nasdaq Board, Class 1; CEO
Dr. Josef Ackermann	53	Director Class 2
H. Furlong Baldwin	69	Director Class 2
Frank E. Baxter	64	Director Class 1
Michael Casey	56	Director Class 3
Michael W. Clark	41	Director Class 1
William S. Cohen	60	Director Class 1
F. Warren Hellman	67	Director Class 2
Richard G. Ketchum	50	Director Class 2; President
John D. Markese	55	Director Class 3
E. Stanley O'Neal	50	Director Class 3
Vikram S. Pandit	45	Director Class 3
Kenneth D. Pasternak	47	Director Class 1
David S. Pottruck	53	Director Class 3
Arthur Rock	75	Director Class 3
Richard C. Romano	69	Director Class 2
Arvind Sodhani	47	Director Class 1
Sir Martin Sorrell	56	Director Class 2
Alfred R. Berkeley, III	57	Vice Chairman
J. Patrick Campbell	52	Executive Vice President, Chief Operating Officer, and President of Nasdaq U.S. Markets
Steven Dean Furbush	42	Executive Vice President--Transaction Services
John M. Hickey	64	Executive Vice President
John L. Hilley	53	Executive Vice President--Strategic Development and Chairman and Chief Executive Officer of Nasdaq International
Edward S. Knight	50	Executive Vice President and General Counsel
Steven Randich	38	Executive Vice President--Operations & Technology and Chief Information Officer
Denise B. Stires	39	Executive Vice President--Marketing and Investor Services
Bruce C. Turner	36	Executive Vice President--Transaction Services
John T. Wall	60	President, Nasdaq International
David P. Warren	47	Executive Vice President--Chief Financial Officer
David Weild IV	44	Vice Chairman and Executive Vice President--Corporate Client Group

Hardwick Simmons, a Staff Director, became Chairman of the Nasdaq Board in September 2001 and has been CEO of Nasdaq since February 2001. Prior to joining Nasdaq, Mr. Simmons served from May 1991 to December 2000 as President and CEO of Prudential Securities Incorporated, the investment and brokerage firm, and Prudential Securities Group Inc., the firm's holding company. Mr. Simmons is a former member of Prudential Securities' Operating Committee, Operating Council, and the board of directors of Prudential Securities Group Inc. Prior to joining Prudential Securities in 1991; Mr. Simmons was President of the Private Client Group at Shearson Lehman Brothers, Inc.

Dr. Josef Ackermann, an Industry Director, was elected to the Nasdaq Board in April 2001 and began serving in May 2001. Dr. Ackermann is Chairman of Corporate and Investment Banking of Deutsche Bank AG, a global bank and financial services firm, and will become Speaker of the Board of Managing Directors at Deutsche Bank AG in 2002. Dr. Ackermann has served on the Board of Managing Directors of Deutsche Bank AG since 1996. Prior to this position, Dr. Ackermann was President of the Executive Board of Credit Suisse from 1993. Dr. Ackermann serves on the board of directors of Vodafone Group Plc and Stora Enso Oyj.

H. Furlong Baldwin, a Non-Industry Director, was elected to the Nasdaq Board in July 2000. Mr. Baldwin has been a member of the NASD Board since 1999. Mr. Baldwin is Chairman of the Mercantile Bankshares Corporation, a multibank holding company. Mr. Baldwin joined Mercantile-Safe Deposit & Trust Company in 1956 and was elected President in 1970 of Mercantile-Safe Deposit & Trust Company and Mercantile Bankshares Corporation and Chairman and CEO in 1976. Mr. Baldwin serves on the board of directors of Mercantile Safe Deposit & Trust Company, Mercantile Bankshares Corporation, Constellation Energy Group, CSX Industries, Offitbank, Wills Group, and The St. Paul Companies.

Frank E. Baxter, an Industry Director, was elected to the Nasdaq Board in 1998. Mr. Baxter is Chairman of the Jefferies Group, Inc., a holding company whose affiliated companies offer a variety of services for institutional investors. Mr. Baxter joined Jefferies & Co. in 1974 and during his time has served as President, Chief Operating Officer ("COO") and CEO. Mr. Baxter is a Director of Investment Technology Group, Inc. and Burdett Buckeridge Young, Australia.

Michael Casey, a Non-Industry Director, was elected to the Nasdaq Board in January 2001. Mr. Casey has been Executive Vice President, Chief Financial Officer ("CFO"), and Chief Administrative Officer of Starbucks Corporation, the leading roaster and retailer of specialty coffee, since September 1997. Prior to his current position, Mr. Casey was Senior Vice President and CFO of Starbucks from August 1995 to September 1997.

Michael W. Clark, an Industry Director, was elected to the Nasdaq Board in May 2001. Mr. Clark is a Managing Director and Head of Global Equity Trading at Credit Suisse First Boston, Inc. ("CSFB"), a global investment bank serving institutional, corporate, government, and individual clients, and a member of its Global Equity Management Committee. Mr. Clark also serves on the firm's Operating Committee and is a member of the Managing Director Evaluation Committee and Co-Head of the Global Recruiting Committee. Mr. Clark joined CSFB as a Vice President in 1991. Prior to assuming his present role in 1995, Mr. Clark was in charge of CSFB's global convertible trading and risk management.

William S. Cohen, a Public Director, was elected to the Nasdaq Board in April 2001 and began serving in May 2001. Secretary Cohen is the Chairman and CEO of The Cohen Group, a strategic business consulting firm. He was previously the Secretary of Defense during the Clinton Administration from 1997 to 2001. Secretary Cohen represented Maine in the U.S. Senate for three terms and in the U.S. House of Representatives for three terms before retiring in 1996.

F. Warren Hellman, a Non-Industry Director, was elected to the Nasdaq Board in March 2001 effective upon the consummation of the sale by Nasdaq of the Subordinated Debentures to Hellman & Friedman that closed on May 3, 2001. Mr. Hellman is a co-founder and is currently the Chairman of Hellman & Friedman LLC, a private equity investment firm, as well as Chairman of the San Francisco Foundation. Prior to his current positions, Mr. Hellman was a general partner of Hellman, Ferri Investment Associates, Matrix Management Company I and II, and President of Lehman Brothers. Mr. Hellman serves on the board of directors of WPP Group plc, Levi Strauss & Co., D.N.&E. Walter & Co., and Il Fornaio (America) Corp., and the University of California at Berkeley Business School Advisory Board.

Richard G. Ketchum, a Staff Director, was elected to the Nasdaq Board in September 2001 and has been President of Nasdaq since July 2000. Mr. Ketchum is responsible for all aspects of Nasdaq's operations, including the development and formulation of market, regulatory, and legal policies, as well as international initiatives. Prior to his current position, Mr. Ketchum served as President of the NASD since 1998, COO of the NASD since 1993 and Executive Vice President of the NASD since 1991.

John D. Markese, a Public Director, was elected to the Nasdaq Board as a Class 3 director in April 2001 and began serving as a Class 3 director in May 2001. Mr. Markese has been a member of the Nasdaq Board since 1996 and a member of the NASD Board since 1996. Mr. Markese is President of the American Association of Individual Investors, a not-for-profit organization specializing in providing education in stock investment and mutual funds, since 1992 and an Executive Vice President from 1986 to 1992. Mr. Markese holds a Doctorate in Finance from the University of Illinois. Mr. Markese also serves on the board of directors of the Alliance for Investor Education.

E. Stanley O'Neal, an Industry Director, was elected to the Nasdaq Board in January 2001. Mr. O'Neal has been the President and Chief Operating Officer of Merrill Lynch & Co., Inc., a global financial services firm, since July 2000. Prior to his current positions, Mr. O'Neal was Executive Vice President of Merrill Lynch and President of its U.S. Private Client Group from February 2000 to July 2000, Executive Vice President and CFO of Merrill Lynch from March 1998 to February 2000; Executive Vice President and Co-Head of Corporate and Institutional Client Group from April 1997 to March 1998 and Managing Director and Head of Global Capital Markets Group from April 1995 to April 1997. Mr. O'Neal joined Merrill Lynch in 1987.

Vikram S. Pandit, an Industry Director, was elected to the Nasdaq Board in January 2001. Since September 2000 Mr. Pandit has been Co-President and Chief Operating Officer of the Institutional Securities Group of Morgan Stanley Dean Witter & Co. ("MSDW"), a global financial services firm. Prior to his current position, Mr. Pandit was Head of MSDW's Worldwide Institutional Equity Division from May 1997 until September 2000; Head of Morgan Stanley Group Inc.'s Equity Division from January 1997 until May 1997; and Head of Morgan Stanley Group Inc.'s Equity Derivatives business from May 1994 until December 1996. Mr. Pandit has been a Managing Director of Morgan Stanley & Co. Incorporated since January 1990.

Kenneth D. Pasternak, an Industry Director, was elected to the Nasdaq Board in May 2001. Mr. Pasternak is Chairman of the Board and CEO of Knight Trading Group, Inc. ("Knight"), and CEO of Knight Securities, L.P., a market maker in U.S. equity securities. Mr. Pasternak was named Chairman of the Board of Knight in October 2000 and has been a member of its board of directors since July 1998. Since 1995, Mr. Pasternak has been the CEO and a trading room supervisor for Knight Securities, L.P., Knight's wholly-owned Nasdaq/over-the-counter securities market maker, and its President from 1995 to 1999. Prior to Knight, Mr. Pasternak served as Senior Vice President, Limited Partner, and Trading Room Manager for Spear Leeds & Kellogg/Troster Singer from 1979 until 1994. Mr. Pasternak serves on the Advisory Committee of BRASS Utility, LLC (BRUT).

David S. Pottruck, an Industry Director, was elected to the Nasdaq Board in July 2000. Mr. Pottruck has been a member of the NASD Board since 2000. Mr. Pottruck is President and Co-Chief Executive Officer and a member of the board of directors of The Charles Schwab Corporation, a holding company whose subsidiaries engage in securities brokerage and financial services. Mr. Pottruck joined The Charles Schwab Corporation in 1984 and became President in 1992. Mr. Pottruck serves on the board of directors of Intel Corporation, McKesson HBOC Inc., Dovebid, and the U.S. Ski and Snowboard Team Foundation. Mr. Pottruck is also a trustee of the University of Pennsylvania.

Arthur Rock, a Non-Industry Director, was elected to the Nasdaq Board in July 2000. Mr. Rock is Principal of Arthur Rock & Co., a venture capital firm in San Francisco, California he founded in 1969. Mr. Rock is currently a Director Emeritus of Intel Corporation and serves on the board of directors of Echelon Corporation.

Richard C. Romano, an Industry Director, was elected to the Nasdaq Board in July 2000. Mr. Romano has been President of Romano Brothers & Company, a securities broker dealer, since 1964. Mr. Romano has been a member of the NASD Board since 1998. Mr. Romano also served on the NASD Board from 1985 to 1988. Mr. Romano is Vice Chairman of the NASD Small Firm Advisory Board.

Arvind Sodhani, a Non-Industry Director, was elected to the Nasdaq Board in

January 1997. From July 2000 to December 2000, Mr. Sodhani served as a non-voting member of the Nasdaq Board. Mr. Sodhani has been a member of the NASD Board since 1998. Mr. Sodhani is Vice President and Treasurer of Intel Corporation, a semiconductor manufacturer of chips and computer networking products. Mr. Sodhani joined Intel in 1981 and became a Vice President in 1990.

Sir Martin Sorrell, a Non-Industry Director, was elected to the Nasdaq Board in January 2001. Sir Martin is a founder and, since 1986, has been Group Chief Officer of WPP Group plc, a global communication services organization. Prior to this position, Sir Martin was the Group Finance Director of Saatchi & Saatchi Company, PLC.

Alfred R. Berkeley III has been Vice Chairman of Nasdaq since July 2000 and was President of Nasdaq from June 1996 to July 2000. Mr. Berkeley was a member of the Nasdaq Board from June 1996 to May 2001. Prior to joining Nasdaq, Mr. Berkeley served for five years as Managing Director and Senior Banker of the Corporate Finance Department of Alex. Brown & Sons Incorporated, a financial services firm. Mr. Berkeley is a member of the board of directors of Princeton Capital Management, Inc.

J. Patrick Campbell became Executive Vice President, President U.S. Markets and COO of Nasdaq in October 2000. Prior to his current position, Mr. Campbell served as an Executive Vice President, Market Services of the NASD since 1997. Prior to joining the NASD, Mr. Campbell was Senior Executive Vice President of The Ohio Company, a regional brokerage firm, where he was also a member of that firm's Board of Directors and Executive Committee. Mr. Campbell was at The Ohio Company since 1973. While a senior executive for The Ohio Company, Mr. Campbell was a member of the Board of Directors from 1990 to 1993.

Steven Dean Furbush became an Executive Vice President of Nasdaq Transaction Services in January 2001. Prior to his current position, Mr. Furbush was Senior Vice President of Nasdaq Transaction Services from October 2000 to January 2000, Managing Director of Nasdaq InterMarket from October 1999 to October 2000, and Chief Economist from June 1995 to October 1999.

John M. Hickey became an Executive Vice President and Senior Technology Advisor in November 2000. Prior to his current position, Mr. Hickey was Executive Vice President and Chief Technology Officer of the NASD from January 1995 to November 2000. Prior to joining the NASD in January 1984, Mr. Hickey was Vice President in charge of Corporate Systems Development at Chemical Bank, a bank and financial services firm, from 1974 to 1984.

John L. Hilley became an Executive Vice President of Strategic Development in January 2001 and has been Chairman and CEO of Nasdaq International since July 1999. Mr. Hilley joined the NASD as Executive Vice President for Strategic Development in February 1998. Prior to joining the NASD, Mr. Hilley served in the White House as senior advisor to President Clinton since February 1996. Mr. Hilley has also held a number of senior staff positions in the U.S. Senate.

Edward S. Knight became an Executive Vice President and General Counsel in October 2000. Prior to his current position, Mr. Knight served as Executive Vice President and Chief Legal Officer of the NASD since July 1999. Prior to joining the NASD, Mr. Knight served as General Counsel of the U.S. Department of the Treasury from September 1994 to June 1999.

Steven Randich became Executive Vice President of Operations & Technology and Chief Information Officer of Nasdaq in October 2001. Prior to his current position, Mr. Randich served as Executive Vice President and Chief Technology Officer of Nasdaq since October 2000. Prior to joining Nasdaq, Mr. Randich was Executive Vice President and Chief Information Officer of the Chicago Stock Exchange from November 1996 to October 2000. Prior to that, Mr. Randich held management positions with International Business Machines Corporation, the software and hardware manufacturer, from October 1990 to November 1996.

Denise B. Stires became Executive Vice President of Marketing and Investor Services in March 2001. Ms. Stires was Chief Marketing Officer of BuyandHold Inc., an on-line financial services company providing dollar-based brokerage services to individuals and corporations, from 2000 to 2001. Prior to that, Ms. Stires was Senior Vice President, Marketing Director of DLJdirect, the on-line discount brokerage service of CSFB from 1997 to 2000, and Vice President, Marketing of SWATCH, a division of SMH, Incorporated based in Switzerland, a manufacturer of watches from 1995 to 1996.

Bruce C. Turner became an Executive Vice President of Nasdaq Transaction Services in July 2001. Prior to his current position, Mr. Turner was Head of Nasdaq Trading at Salomon Smith Barney, a global investment banking firm, from January 1997 to July 2000, and a position trader, at Salomon Smith Barney from July 1992 to January 1997.

John T. Wall became an Executive Vice President of Nasdaq in February 1994 and President of Nasdaq International in October 1997. Mr. Wall is responsible for the strategic development and international marketing of Nasdaq's products and services. Mr. Wall is also responsible for non-U.S. company listings, as well as promoting and directing the overall globalization of the marketplace. Mr. Wall established Nasdaq's operations in London and negotiates the sale of Nasdaq's computerized systems to other world markets. Mr. Wall joined the NASD in 1965 and during his tenure has been head of Regulation, Membership, and Qualifications Testing. Mr. Wall currently sits on Hong Kong's International Committee for Listing New Enterprises.

David P. Warren became Executive Vice President and Chief Administrative

Officer of Nasdaq in April 2001 and CFO in September 2001. Mr. Warren oversees finance, human resources, and all administrative services including real estate, property management and purchasing. Prior to his current position, Mr. Warren was CFO of the Long Island Power Authority from 1998 to 2000, Deputy Treasurer of the State of Connecticut from 1995 to 1997, and a Vice President at CSFB from 1987 to 1995.

David Weild IV became Vice Chairman of Nasdaq in October 2001 and Executive Vice President of the Corporate Client Group of Nasdaq in March 2001. Prior to his current positions, Mr. Weild held various positions with Prudential Securities Incorporated, the investment and brokerage firm, including President of Prudential Securities.Com from 2000 to 2001, Managing Director and Head of High Technology from 1997 to 2000, Managing Director of Investment Banking and Head of Corporate Finance from 1995 to 1997, and Managing Director and Head of Global Equity Transactions from 1990 to 1995.

Item 6. Executive Compensation.

SUMMARY COMPENSATION TABLE

The following table sets forth compensation awarded to, earned by, or paid to the individuals who were, as of December 31, 2000, the CEO and the four most highly compensated employees other than the CEO, for all services rendered to Nasdaq and its subsidiaries for the fiscal year ended December 31, 2000.

Name and Principal Position (a)	Year (b)	Annual Compensation		Other Annual Compensation Awards (\$) (e)	Long-Term Compensation Awards			All Other Compensation (2) (\$) (i)
		Salary (\$) (c)	Bonus(1) (\$) (d)		Restricted Stock Award(s) (\$) (f)	Securities Underlying Options/ SARs (#) (g)	LTIP Payouts (\$) (h)	
Frank G. Zarb(3)	2000	1,333,333	6,000,000	441,055(4)	-	140(5)	-	17,892
Alfred R. Berkeley, III, Vice Chairman, Nasdaq	2000	522,500	650,000	-	-	-	-	13,405
Richard G. Ketchum, President, Nasdaq(6)	2000	522,500	1,750,000	-	-	76(5)	-	13,405
John L. Hilley, Executive Vice President, Nasdaq and Chairman and Chief Executive Officer, Nasdaq International(7)	2000	450,000	950,000	408,720	237,500(8)	-	-	13,085
J. Patrick Campbell, Executive Vice President, Chief Operation Officer, and President, Nasdaq U.S. Markets	2000	409,000	750,000	-	-	-	-	12,764

(1) Includes \$800,000, \$130,000, \$950,000, \$390,000 and \$270,000 with respect to Messrs. Zarb, Berkeley, Ketchum, Hilley and Campbell, respectively, which amounts will be paid only if the individuals remain employed by Nasdaq on December 31, 2002 or in the event of their prior retirement, permanent disability, death or involuntary termination without cause.

(2) Represents Nasdaq contributions to 401(k) plan and payment in respect of a forgiveness of loan in the amount of \$7,692 for Mr. Zarb; \$3,205 for each of Messrs. Berkeley and Ketchum; \$2,885 for Mr. Hilley; and \$2,564 for Mr. Campbell.

(3) In 2000, the NASD paid approximately 50% of Mr. Zarb's salary and bonus for services rendered. Mr. Zarb served as Chairman of the Nasdaq Board during the fiscal year ended December 31, 2000 and until September 26, 2001, and he served as the CEO of Nasdaq during the fiscal year ended December 31, 2000 and until February 1, 2001.

(4) Includes \$221,735 in respect of the purchase of Mr. Zarb's residence.

(5) Represents a seven year option to purchase Nasdaq Japan common stock (after giving effect to the four-for-one stock split that was effective as of April 2001) that was granted by Nasdaq Global (50%) and SOFTBANK (50%).

(6) In 2000, the NASD paid approximately 25% of Mr. Ketchum's salary and bonus for services rendered.

(7) In 2000, the NASD paid approximately 52% of Mr. Hilley's salary and bonus for services rendered.

(8) Represents the grant of an award, effective as of May 12, 2000, of 1,900 shares of restricted common stock of Nasdaq Japan (after giving effect to the four-for-one stock split that was effective as of April 2001), vesting one-third on each of June 1, 2000, June 1, 2001 and June 1, 2002, based on a value of \$125.00 per share on the grant date (after giving

effect to the four-for-one stock split that was effective as of April 2001). As of December 31, 2000, the aggregate value (after giving effect to the four-for-one stock split that was effective as of April 2001) of the then-unvested shares was approximately \$7.9 million and the aggregate value of the then-vested shares was approximately \$4 million, in each case based upon the valuation of shares of Nasdaq Japan sold in a private placement transaction that occurred in October 2000. Dividends (if any) on restricted shares are paid to the award holder.

OPTION/SAR GRANTS IN LAST FISCAL YEAR

The following table provides information on stock option grants made in 2000 to the named executive officers with respect to shares of Nasdaq Japan. No options to acquire shares of Nasdaq were granted in 2000.

Name	Individual Grants				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation For Option Term	
	Number of Securities Underlying Option/SARs Granted (#) (a)	Percent of Total Options/ SARs Granted to Employees in Fiscal Year (4) (b)	Exercise or Base Price (\$/Sh) (c)	Expiration Date (d)	5% (\$) (e)	10% (\$) (f)
Frank G. Zarb	140 (1)(2)	3.6%	\$125	July 31, 2007	7,124	16,602
Alfred R. Berkeley, III	0					
Richard G. Ketchum	76 (1)(3)	2.0%	\$125	July 31, 2007	3,867	9,012
John L. Hilley	0					
J. Patrick Campbell	0					

- (1) Represents options to purchase Nasdaq Japan common stock that were granted by Nasdaq Global (50%) and SOFTBANK (50%) and reflects the four-for-one stock split that was effective as of April 2001.
- (2) Options become exercisable with respect to 48 shares on July 31, 2001; 48 shares on July 31, 2002 and the remaining 44 shares on July 31, 2003.
- (3) The option shall become exercisable at such times and in such portions as shall be determined by the committee established pursuant to the plan under which the option was granted.
- (4) Represents percentage of total options to purchase shares of Nasdaq Japan common stock that were granted by Nasdaq Global (50%) and SOFTBANK (50%) in 2000.

AGGREGATED OPTION/SAR EXERCISES IN LAST FISCAL YEAR AND FY-END OPTION/SAR VALUES

The following table provides information on the number of options to purchase common stock of Nasdaq Japan held by the named executive officers at fiscal year end 2000.

Name (a)	Shares Acquired on Exercise (#) (b)	Value Realized (\$) (c)	Number of Securities Underlying Unexercised Options/SARs at Fiscal Year-End (#) Exercisable/Unexercisable (d)	Value of Unexercised in-the-Money Options/SARs at Fiscal Year-End(1) (\$) Exercisable/Unexercisable (e)
Frank G. Zarb	0	0	0 / 140	0 / 857,500

Alfred R. Berkeley, III	0	0		
Richard G. Ketchum	0	0	0 / 76	0 / 465,500
John L. Hilley	0	0		
J. Patrick Campbell	0	0		

(1) The fair market value per share of Nasdaq Japan common stock on December 31, 2000 was \$6,250 (after giving effect to the four-for-one stock split that was effective as of April 2001) based upon the valuation of shares of Nasdaq Japan sold in a private placement transaction that occurred in October 2000.

Employment Agreements

The NASD and Nasdaq are parties to an employment agreement with Frank Zarb (the "Zarb Agreement"). The Zarb Agreement had an initial term of three years commencing on February 24, 1997 (the "Initial Term") and continues for an additional period of two years immediately following the Initial Term (the "Additional Term," the Initial Term and the Additional Term collectively, referred to as the "Term"). The Zarb Agreement provides for (i) an annual base salary of \$1,200,000 from the commencement of the Initial Term through October 31, 2000 and \$2,000,000 during the period commencing on November 1, 2000 through the remainder of the Term and (ii) incentive compensation as the Management Compensation Committee of the NASD may award in its discretion, provided that the amount of such compensation for each full year of service during the Term may not be less than 50% of Mr. Zarb's base salary for such year, and provided further that such compensation for the second year of the Additional Term may not be less than \$4,000,000. Under the Zarb Agreement, during the first year of the Additional Term, the aggregate annual base salary and incentive compensation paid to Mr. Zarb by the NASD may not be less than the aggregate annual amount paid to Mr. Zarb for the second or third year of the Initial Term, whichever was greater and, during the second year of the Additional Term, the aggregate annual base salary and incentive compensation paid to Mr. Zarb by the NASD may not be less than the aggregate annual amount paid to Mr. Zarb for the third year of the Initial Term or the first year of the Additional Term, whichever was greater. Under the terms of the Zarb Agreement, Nasdaq has (1) fully vested all stock options granted to Mr. Zarb upon his relinquishment of his position and duties under the circumstances set forth in the Zarb Agreement (which relinquishment occurred in September 2001) and will permit the exercise of the options during the three month period thereafter for incentive stock options and during the five year period thereafter for all other stock options and (2) caused all restrictions on any restricted stock awarded to Mr. Zarb by Nasdaq to lapse upon the foregoing relinquishment. Mr. Zarb continues to be employed pursuant to the Zarb Agreement.

Under the terms of the Zarb Agreement, Mr. Zarb became fully vested in his benefits under the NASD Supplemental Executive Retirement Plan (which benefits may be payable in a lump sum) upon the completion of the Initial Term. Under the Zarb Agreement, on February 24, 2002 and for a period of five years thereafter, unless Mr. Zarb terminates his employment earlier, Mr. Zarb will be entitled to an annual consulting fee of \$100,000 (plus \$2,000 per hour for any hours in excess of 50 hours in any calendar year) and certain fringe benefits and perquisites, provided that Mr. Zarb makes himself available to provide consulting services to the CEO of the NASD during such period and does not commence employment with another employer or recommence employment with the NASD during such period.

Mr. Zarb's employment may be terminated due to (i) death or disability (ii) by the NASD for "cause" or (iii) by Mr. Zarb for "good reason" upon 30 days written notice. If Mr. Zarb terminates his employment for "good reason" or if the NASD terminates Mr. Zarb's employment other than for cause, Mr. Zarb is entitled to (1) a cash payment equal to the base salary and minimum incentive compensation that would have been paid to Mr. Zarb for the remainder of the Term, (2) the retirement benefits Mr. Zarb would have been entitled to had he completed the Term and (3) continuation of certain other benefits.

A May 1996 letter sets forth certain terms and conditions of Mr. Berkeley's employment that commenced on May 31, 1996. The letter provides that if the Nasdaq Board or the NASD Board terminates Mr. Berkeley's employment without "cause," Nasdaq is obligated to continue to pay Mr. Berkeley his then effective monthly salary for a period of 24 months following the date of such termination.

Nasdaq has entered into an employment agreement (the "Employment Agreements") with each of Richard G. Ketchum, J. Patrick Campbell and John L. Hilley (each an "Executive" collectively, the "Executives"). The term of the Employment Agreements commenced as of December 30, 2000 and will continue until December 31, 2003 with automatic one-year renewals, unless either party, at least six months prior to the expiration of the term, gives a notice of its intent not to renew the term.

The Employment Agreements with Messrs. Ketchum and Campbell provide for a base salary at an annual rate not less than the rate of base salary in effect as of the effective date. Mr. Hilley's Employment Agreement provides for an annual salary at a rate not less than the rate of annual salary in effect for 1999. The Employment Agreements with Messrs. Ketchum and Campbell provide for guaranteed incentive compensation for each year during the term in an amount equal to 100% of base salary as in effect on December 31 of the preceding year.

Under the terms of the Employment Agreements, the Executives will be fully vested in their supplemental retirement benefits (the "SERP Benefit") under the NASD's Supplemental Retirement Plan, upon the attainment of age 55 (53 in the case of Mr. Ketchum) while employed and completion of five years of service or if the Executives' employment with Nasdaq terminates (i) due to death or disability (ii) by Nasdaq without "cause" or (iii) by the Executive for "good reason." With respect to Mr. Hilley, the final average compensation for purposes of determining SERP benefits will be deemed to be the sum of (a) one-half of his annual salary and (b) one-third of one-half of his annual salary. The Executives are also entitled to receive equity awards under Nasdaq's equity plans and other fringe benefits. Under the terms of the Employment Agreements, each Executive is entitled to receive a payment in an amount equal to two times the Executive's then effective base salary (in the case of Mr. Hilley his then effective annual salary) (the "Stay Bonus") if the Executive is (i) employed by Nasdaq as of August 9, 2002, (ii) if the Executive's employment is terminated due to death or disability, (iii) if the Executive terminates employment for "good reason" or (iv) Nasdaq terminates the Executive's employment without "cause."

If Mr. Ketchum's or Mr. Campbell's employment is terminated without "cause" or if Mr. Ketchum or Mr. Campbell terminates employment for "good reason," Nasdaq is obligated to pay to Mr. Ketchum or Mr. Campbell, respectively (i) the Stay Bonus if not previously paid; (ii) a pro rata portion of the incentive compensation for the year of termination; and (iii) a lump sum cash payment equivalent to continuation of base salary and incentive compensation until the later of (x) the end of the term of the Employment Agreement or (y) 24 months following the date of such termination of employment.

If Mr. Hilley's employment is terminated without "cause" or if Mr. Hilley terminates employment for "good reason," Nasdaq is obligated to pay Mr. Hilley (i) the Stay Bonus if not previously paid and (ii) a lump sum cash payment equivalent to continuation of annual salary until the later of (x) the end of the term of the Employment Agreement or (y) 24 months following the date of such termination of employment.

In addition, if the Executive becomes subject to any "golden parachute" excise tax, Nasdaq is obligated to make additional payments to the Executive to offset the effect of such tax. The Executives have also agreed to be subject to certain restrictive covenants relating to non-competition, non-solicitation, non-disparagement and confidentiality.

PENSION PLAN TABLE

Nasdaq's executive officers participate in the NASD's qualified and supplemental defined benefit pensions plans. Under these plans executive officers earn an aggregate benefit expressed as an annual annuity equal to 6% of their final average compensation for each year of service up to a maximum of 10 years. Final average compensation is the average annual salary plus one-third of the annual bonus for the highest five-year period of service, except in the case of the Mr. Hilley (as described in "Employment Agreements" above). As of December 31, 2000, the estimated credited years of service for Mr. Zarb is 3.85 years, Mr. Berkeley is 4.58 years, Mr. Ketchum is 9.67 years, Mr. Hilley is 2.85 years, and Mr. Campbell is 3.97 years. The following table sets forth the aggregate annual benefit payable under the plans for various levels of remuneration and years of service. Such benefits are not reduced by benefits received under social security or other offsets.

Remuneration	Years of Service					
	5	10	15	20	25	30
500,000	150,000	300,000	300,000	300,000	300,000	300,000
600,000	180,000	360,000	360,000	360,000	360,000	360,000
700,000	210,000	420,000	420,000	420,000	420,000	420,000
800,000	240,000	480,000	480,000	480,000	480,000	480,000
900,000	270,000	540,000	540,000	540,000	540,000	540,000
1,000,000	300,000	600,000	600,000	600,000	600,000	600,000
1,500,000	450,000	900,000	900,000	900,000	900,000	900,000
2,000,000	600,000	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000
3,000,000	900,000	1,800,000	1,800,000	1,800,000	1,800,000	1,800,000

Item 7. Certain Relationships and Related Transactions.

The NASD

Nasdaq's legal authority to operate as a stock market is delegated to it by the NASD under the Delegation Plan. Although Nasdaq has initiated the process with the SEC for Exchange Registration, Exchange Registration is not expected to occur until later this year. As a result, prior to Exchange Registration, Nasdaq will continue to operate under the Delegation Plan, under which the NASD has delegated responsibility for market operation

functions to Nasdaq. Though Nasdaq exercises primary responsibility for market-related functions, including market-related rulemaking and interpretations, all actions taken pursuant to delegated authority by the NASD are subject to review, ratification, or rejection by the NASD Board. As long as the Delegation Plan remains in effect, the NASD Board will continue to have authority over Nasdaq. The current structure will continue until Nasdaq is reconstituted as a self-regulatory organization, which will become effective upon Exchange Registration.

Currently, Messrs. Baldwin, Markese, Pottruck, Romano, and Sodhani are members of the NASD Board as well as members of the Nasdaq Board.

In June 2000, in connection with the Restructuring, the NASD separated Amex from The Nasdaq-Amex Market Group, Inc., a holding company of the NASD that also held Nasdaq, and then merged The Nasdaq-Amex Market Group, Inc., with and into Nasdaq. Following this merger, Nasdaq effected a 49,999-for-one stock dividend creating 100 million shares of Common Stock, all of which were initially owned by the NASD.

On June 28, 2000, the NASD and Nasdaq entered into a Separation and Common Services Agreement pursuant to which the NASD continues to provide Nasdaq certain administrative, corporate, and infrastructure services that were provided by the NASD to Nasdaq prior to June 28, 2000, including cash management and other financial services, real estate, legal, human resources, surveillance and other regulatory services, information services and corporate and administrative services. Nasdaq pays to the NASD the cost of any services provided, including the incidental expenses associated with such services. Nasdaq expects the cost of the services provided by the NASD to be approximately \$9 million per year under this agreement. Under the Separation and Common Services Agreement, Nasdaq has also agreed to provide the NASD the access to Nasdaq technology that the NASD requires to satisfy its obligations to Amex under the transaction agreement the NASD entered into in connection with the 1998 acquisition of the assets of Amex, for so long as such obligations may continue. Additionally, Nasdaq has agreed to continue to provide all services it provided to Amex as of June 28, 2000, for so long as such obligations may continue. The NASD reimburses Nasdaq for the cost of rendering such services and access to Amex. The Separation and Common Services Agreement continues until December 31, 2001 and will automatically renew until December 31, 2002 in the event it is not superceded by another separation and services agreement between the NASD and Nasdaq.

On June 28, 2000, Nasdaq and NASDR, a wholly-owned subsidiary of the NASD, entered into a Regulatory Services Agreement pursuant to which NASDR or its subsidiaries will provide regulatory services to Nasdaq and its subsidiaries commencing upon the effectiveness of Exchange Registration. The term of the Regulatory Services Agreement is 10 years. The services will be of the same type and scope as are provided by NASDR to Nasdaq under the Delegation Plan and will include (i) the provision of services to Nasdaq's market participants, including registration and education services, (ii) surveillance and investigation services, (iii) formal disciplinary proceedings and (iv) dispute resolution services. Under the Regulatory Services Agreement, each of the services is to be provided on a function-by-function basis. Each service is to be provided for a minimum of five years, after which time the parties may determine to terminate the provision by NASDR of a particular service. The termination of a particular service will generally be based upon a review of pricing and the need for such services. Nasdaq will pay to NASDR the cost of any services provided plus a fair market mark-up. Nasdaq expects the cost of these services provided by the NASDR to be approximately \$90 million per year. The Regulatory Services Agreement also provides for Nasdaq's access to certain NASDR software that has been or will be developed for Nasdaq.

Nasdaq pays the NASD and certain of its subsidiaries for the use of approximately 298,000 square feet of office space. Nasdaq pays approximately \$14.3 million in the aggregate per year to the NASD for the use of this space.

On May 3, 2001, Nasdaq repurchased 18,461,538 shares of Common Stock from the NASD for \$13.00 per share or an aggregate purchase price of \$239,999,994. This price was determined following discussions between members of management of Nasdaq and members of management of the NASD and is the same price at which shares of Common Stock were sold in January 2001 Phase II. In connection with the transaction, Nasdaq and the NASD have agreed to enter into an Investor Rights Agreement pursuant to which Nasdaq will grant the NASD (i) certain demand and piggyback registration rights with respect to the shares of Common Stock owned by it and (ii) certain rights such that, prior to Exchange Registration, Nasdaq would need the consent of the NASD before any issuance of Common Stock (or securities convertible into Common Stock) that would dilute the NASD's ownership by 5% or more.

Hellman & Friedman

On May 3, 2001, Nasdaq issued and sold \$240 million in aggregate principal amount of its Subordinated Debentures to Hellman & Friedman. The Subordinated Debentures are convertible at any time into an aggregate of 12,000,000 shares of Common Stock, subject to adjustment, in general, for any stock split, dividend, combination, recapitalization or other similar event. Hellman & Friedman owns approximately 9.7% of Nasdaq on an as-converted basis. In connection with the transaction, Nasdaq has agreed to use its best efforts to seek stockholder approval of a charter amendment that would provide for voting debt in order to permit Hellman & Friedman to vote on an as-converted basis on all matters on which common stockholders have the right to vote, subject to the 5% voting limitation in the Certificate of Incorporation. In addition, Nasdaq has also agreed that in the event that the Nasdaq Board approves an exemption from the foregoing 5% limitation for any person pursuant to the Certificate of Incorporation

(other than an exemption granted in connection with a strategic market alliance) and seeks the concurrence of the SEC with respect thereto, Nasdaq will grant Hellman & Friedman a comparable exemption from such limitation and use its best efforts to obtain SEC concurrence of such exemption. Nasdaq has granted Hellman & Friedman certain registration rights with respect to the shares of Common Stock underlying the Subordinated Debentures. Additionally, Hellman & Friedman is permitted to designate one person reasonably acceptable to Nasdaq for nomination as a director of Nasdaq for so long as Hellman & Friedman owns Subordinated Debentures and/or shares of Common Stock issued upon conversion representing at least 50% of the shares of Common Stock issuable upon conversion of the Subordinated Debentures initially purchased. Nasdaq has elected F. Warren Hellman as a director of Nasdaq pursuant to the foregoing provision. Arthur Rock, a member of the Nasdaq Board of Directors, is an indirect limited partner of Hellman & Friedman.

Directors and Officers

Certain officers of Nasdaq were awarded restricted shares of Nasdaq Japan common stock or options to purchase shares of Nasdaq Japan common stock. See "Item 4. Security Ownership of Certain Beneficial Owners and Management" and "Item 1. Business--Nasdaq's Strategic Initiatives--Pursuing Global Market Expansion--Nasdaq Japan."

In connection with Nasdaq's Equity Incentive Plan, officers of Nasdaq received awards of options to purchase shares of Common Stock and/or restricted shares of Common Stock. See "Item 9. Market Price of and Dividends on Registrants' Common Equity and Related Stockholder Matters." Directors and officers may receive equity-based awards in the future. In connection with Nasdaq's Employee Stock Purchase Plan, employees (including employees who are directors) have the opportunity to purchase shares of Common Stock. See "Item 10. Recent Sales of Unregistered Securities."

Item 8. Legal Proceedings.

Nasdaq is not currently a party to any litigation that it believes could have a material adverse effect on its business, financial condition, or operating results. However, from time to time, Nasdaq has been threatened with, or named as a defendant, in lawsuits.

Item 9. Market Price of and Dividends on the Registrant's Common Equity and Related Stockholder Matters.

No established public trading market exists for the Common Stock.

As of October 31, 2001, there were outstanding options to purchase an aggregate of 9,741,147 shares of Common Stock and 593,050 shares of restricted Common Stock that were granted to officers and employees of Nasdaq and its subsidiaries. In October 2001, Nasdaq filed a registration statement on Form S-8 under the Securities Act covering shares of Common Stock reserved for issuance under its Equity Incentive Plan and, in November 2001, Nasdaq filed a registration statement on Form S-8 under the Securities Act covering shares of Common Stock reserved for issuance under its Employee Stock Purchase Plan. The registration statements became effective immediately upon filing.

In addition, there are currently outstanding warrants to purchase 43,227,176 shares of Common Stock that were sold by the NASD in the Restructuring. The shares underlying the warrants are all issued and outstanding and held by the NASD. The Subordinated Debentures will be convertible at any time prior to their maturity for an aggregate of 12,000,000 shares of Common Stock, subject to adjustment, in general, for any stock split, dividend, combination, recapitalization or other similar event.

All 76,995,171 shares of Common Stock beneficially owned by the NASD as of October 31, 2001 are subject to sale pursuant to Rule 144 under the Securities Act, subject to the limitations set forth therein and other contractual limitations. Nasdaq and the NASD have agreed to enter into an Investor Rights Agreement pursuant to which Nasdaq will grant the NASD, subject to certain terms and conditions, registration rights with respect to the shares of Common Stock owned by it.

In addition, Nasdaq has agreed to register, subject to certain terms and conditions, the shares of Common Stock underlying the Subordinated Debentures currently held by Hellman & Friedman. The Subordinated Debentures are currently convertible into an aggregate of 12,000,000 shares of Common Stock, subject to adjustment, in general, for any stock split, dividend, combination, recapitalization or other similar event.

As of November 15, 2001, Nasdaq had approximately 2,744 holders of record of its Common Stock.

Nasdaq does not pay, and does not anticipate paying in the foreseeable future, any cash dividends on its common equity.

Item 10. Recent Sales of Unregistered Securities.

In Phase I, on June 28, 2000, Nasdaq sold an aggregate of 23,663,746 shares of Common Stock at \$11.00 per share for an aggregate consideration of \$260,301,206 to investors consisting of NASD members, Nasdaq market participants, issuers with securities listed on The Nasdaq Stock Market, and other strategic partners. In Phase II, on January 18, 2001, Nasdaq sold an aggregate of 5,028,797 shares of Common Stock at \$13.00 per share for an aggregate consideration of \$65,374,361 to investors consisting of NASD members, issuers with securities listed on The Nasdaq Stock Market, institutional investment firms and providers of technology services to Nasdaq. The number of shares of Common Stock offered in both Phases I and

II to each category of investor was based upon a variety of factors, including the offeree's contributions to Nasdaq's growth. The shares of Common Stock sold by Nasdaq in Phase I and Phase II were issued to "accredited investors" in private transactions exempt under Regulation D of the Securities Act. See "Item 1. Business---The Restructuring."

On May 3, 2001, Nasdaq issued and sold \$240 million in aggregate principal amount of its 4% convertible subordinated debentures due 2006 (the "Subordinated Debentures") to Hellman & Friedman. The Subordinated Debentures are currently convertible into an aggregate of 12,000,000 shares of Common Stock, reflecting a conversion price of \$20.00 per share, subject to adjustment, in general, for any stock split, dividend, combination, recapitalization or other similar event. Hellman & Friedman owns approximately 9.7% of Nasdaq on an as-converted basis. Nasdaq has granted Hellman & Friedman certain registration rights with respect to the shares of Common Stock underlying the Subordinated Debentures. See "Item 1 Business--Recent Transactions." The Subordinated Debentures were sold in a private transaction pursuant to Section 4(2) of the Securities Act, which exempts sales of securities that do not involve a public offering.

For the offering period ended June 29, 2001, Nasdaq sold approximately 209,813 shares of Common Stock pursuant to its Employee Stock Purchase Plan for an aggregate offering price of approximately \$2,230,312. The foregoing sale of shares of Common Stock was made pursuant to Rule 701 under the Securities Act, which exempts issuances of securities under certain written compensatory employee benefit plans. In addition, Nasdaq has approved a maximum of 500,000 shares of Common Stock for sale pursuant to its Employee Stock Purchase Plan for the offering period ending December 31, 2001.

On November 12, 2001, Nasdaq sold an aggregate amount of 535,000 shares of Common Stock to five members of the Nasdaq Board for an aggregate offering price of \$5,483,750. The shares were sold in a private transaction exempt under Regulation D of the Securities Act. See "Item 4. Security Ownership of Certain Beneficial Owners and Management."

Item 11. Description of Registrant's Securities to be Registered.

General

The authorized capital stock of Nasdaq consists of 300,000,000 shares of Common Stock, par value \$.01 per share, and 30,000,000 shares of preferred stock, par value \$.01 per share. As of November 15, 2001, there were 111,568,868 shares of Common Stock outstanding and no shares of preferred stock outstanding.

Common Stock

The holders of Common Stock are entitled to one vote per share on all matters to be voted upon by the stockholders except that any person, other than the NASD or any other person as may be approved for such exemption by the Nasdaq Board prior to the time such person owns more than 5% of the then outstanding shares of Common Stock, who otherwise would be entitled to exercise voting rights in respect of more than 5% of the then outstanding shares of Common Stock will be unable to exercise voting rights in respect of any shares in excess of 5% of the then outstanding shares of Common Stock. At any meeting of the stockholders of Nasdaq, a majority of the shares of Common Stock in respect of which voting rights can be exercised will constitute a quorum for such meeting. In response to the SEC's concern about a concentration of ownership of Nasdaq, Nasdaq's Exchange Registration application includes a rule that prohibits any member of Nasdaq or a person associated with such member from beneficially owning more than 5% of the outstanding shares of Common Stock.

Nasdaq has agreed to use its best efforts to seek stockholder approval of a charter amendment that would provide for voting debt in order to permit holders of the Subordinated Debentures to vote on an as-converted basis on all matters on which common stockholders have the right to vote, subject to the 5% voting limitation. Under the Certificate of Incorporation, Nasdaq's Board may waive the application of the 5% voting limitation to persons other than brokers, dealers, their affiliates, and persons subject to statutory disqualification under Section 3(a)(39) of the Exchange Act. In the event that the Nasdaq Board approves an exemption from the 5% voting limitation (other than an exemption granted in connection with a strategic market alliance) and seeks the concurrence of the SEC with respect thereto, Nasdaq has agreed to grant Hellman & Friedman a comparable exemption from such limitation and use its best efforts to obtain SEC concurrence of such exemption.

Holders of Common Stock are entitled to receive ratably such dividends, if any, as may be declared from time to time by the Nasdaq Board out of funds legally available for them. In the event of liquidation, dissolution, or winding up of Nasdaq, the holders of Common Stock are entitled to share ratably in all assets remaining after payment of liabilities, subject to prior distribution rights of preferred stock, if any, then outstanding. The Common Stock has no preemptive or conversion rights or other subscription rights. There are no redemption or sinking fund provisions applicable to the Common Stock. All outstanding shares of Common Stock are fully paid and non-assessable, and the shares of Common Stock to be issued upon completion of this offering will be fully paid and non-assessable.

Preferred Stock

The Nasdaq Board may provide by resolution for the issuance of preferred stock, in one or more series, and to fix the powers, preferences, and rights, and the qualifications, limitations, and restrictions thereof, of this preferred stock, including dividend rights, conversion rights, voting rights, terms of redemption, liquidation preferences, sinking fund provisions, if any, and the number of shares constituting any series or the

designation of such series. The issuance of preferred stock could have the effect of decreasing the market price of the Common Stock and could adversely affect the voting and other rights of the holders of Common Stock.

Certain Provisions of the Certificate of Incorporation and By-Laws

Some provisions of the Certificate of Incorporation and By-Laws, which provisions are summarized above and in the following paragraphs, may be deemed to have an anti-takeover effect and may delay, defer, or prevent a tender offer or takeover attempt that a stockholder might consider in its best interest, including those attempts that might result in a premium over the market price for the shares held by stockholders.

Classified Board of Directors

The Nasdaq Board is divided into three classes, with one class to be elected each year to serve a three-year term. As a result, approximately one-third of the Nasdaq Board will be elected each year. These provisions, when coupled with the provision limiting the voting rights of certain persons, other than the NASD, and the provision authorizing the Nasdaq Board to fill vacant directorships or increase the size of the Nasdaq Board, may prevent a stockholder from removing incumbent directors and simultaneously gaining control of the Nasdaq Board by filling the vacancies created by such removal with its own nominees. In addition, stockholders of Nasdaq can only remove directors for cause with an affirmative vote of the holders of not less than 66 2/3% of the outstanding shares of capital stock of Nasdaq eligible to vote for directors.

Frank E. Baxter, Michael W. Clark, William S. Cohen, Kenneth D. Pasternak, Hardwick Simmons and Arvind Sodhani serve as Class 1 directors whose terms expire at the 2004 annual meeting of stockholders; Dr. Josef Ackermann, H. Furlong Baldwin, F. Warren Hellman, Richard C. Romano, Sir Martin Sorrell, and Richard G. Ketchum serve as Class 2 directors whose terms expire at the 2002 annual meeting of stockholders; and Michael Casey, John D. Markese, E. Stanley O'Neal, Vikram S. Pandit, David S. Pottruck, and Arthur Rock serve as Class 3 directors whose terms expire at the 2003 annual meeting of stockholders.

Pursuant to the Certificate of Incorporation and the By-Laws, the Nasdaq Board, at its discretion, is authorized to fix the number of directors constituting the Nasdaq Board. The number of voting directors on the Nasdaq Board is currently fixed at 18.

Pursuant to the By-Laws, the number of Non-Industry Directors (as defined below), including at least one Public Director (as defined below) and at least two representatives of Nasdaq-listed companies (an "Issuer Representative"), is required to equal or exceed the number of Industry Directors (as defined below), unless the Nasdaq Board consists of 9 or fewer directors. In such case only one director is required to be an Issuer Representative.

If a director position becomes vacant, whether because of death, disability, disqualification, removal, or resignation, Nasdaq's Nominating Committee will nominate, and the Nasdaq Board will elect by majority vote, a person satisfying the classification (Industry, Non-Industry, or Public Director), if applicable, for the directorship to fill such vacancy, except that if the remaining term is not more than six months, no replacement is required.

The following is a general description of Nasdaq's director classifications:

- o Industry Director means a Director (excluding any two officers of Nasdaq, selected at the sole discretion of the Nasdaq Board, amongst those officers who may be serving as directors (the "Staff Directors")) who (i) has served in the prior three years as an officer, director, or employee of a broker or dealer, excluding an outside director or a director not engaged in the day-to-day management of a broker or dealer; (ii) is an officer, director (excluding an outside director), or employee of an entity that owns more than 10% of the equity of a broker or dealer, and the broker or dealer accounts for more than 5% of the gross revenues received by the consolidated entity; (iii) owns more than 5% of the equity securities of any broker or dealer, whose investments in brokers or dealers exceed 10% of his or her net worth, or whose ownership interest otherwise permits him or her to be engaged in the day-to-day management of the broker or dealer; (iv) provides professional services to brokers or dealers, and such services constitute 20% or more of the professional revenues received by the director or member or 20% or more of the gross revenues received by the director's or member's firm or partnership; (v) provides professional services to a director, officer, or employee of a broker, dealer, or corporation that owns 50% or more of the voting stock of a broker or dealer, and such services relate to the director's, officer's, or employee's professional capacity and constitute 20% or more of the professional revenues received by the director or 20% or more of the gross revenues received by the director's or member's firm or partnership; or (vi) has a consulting or employment relationship with or provides professional services to the NASD, NASDR, Nasdaq, or Amex or has had any such relationship or provided such services at any time within the prior three years.

- o Non-Industry Director means a Director (excluding the Staff Directors) who is (i) a Public Director; (ii) an officer or employee of an issuer of securities listed on The Nasdaq Stock Market, or traded in the over-the-counter market; or (iii) any other individual who would not be an Industry Director.
- o Public Director means a Director who has no material business relationship with a broker or dealer, the NASD, NASDR, or Nasdaq.

Advance Notice Requirements for Stockholder Proposals and Directors Nominations

The By-Laws provide that stockholders seeking to bring business before an annual meeting of stockholders, or to nominate candidates for election as directors at an annual meeting of stockholders, must provide timely notice in writing. To be timely, a stockholder's notice must be delivered to or mailed and received at Nasdaq's principal executive offices not less than 90 nor more than 120 days prior to the anniversary date of the immediately preceding annual meeting of stockholders; provided, that in the event that the annual meeting is called for a date that is not within 30 days before or 70 days after such anniversary date, notice by the stockholder in order to be timely must be received not earlier than 120 days prior to the meeting and not later than the later of 90 days prior to the meeting and the close of business on the 10th day following the date on which notice of the date of the annual meeting was first made public. In the case of a special meeting of stockholders called for the purpose of electing directors, notice by the stockholder in order to be timely must be received not earlier than 120 days prior to the meeting and later than the later of 90 days prior to the meeting and the close of business on the 10th day following the day on which public disclosure of the date of the special meeting and Nasdaq's nominees was first made. In addition, the By-Laws specify certain requirements as to the form and content of a stockholder's notice. These provisions may preclude stockholders from bringing matters before an annual meeting of stockholders or from making nominations for directors at an annual or special meeting of stockholders.

Stockholder Action; Special Meeting of Stockholders

The Certificate of Incorporation provides that stockholders are not entitled to act by written consent in lieu of a meeting. Delaware law vests the board of directors of a Delaware corporation with the authority to call special meetings of stockholders and permits the corporation to authorize in its certificate of incorporation or by-laws other persons to also have such authority. The Certificate of Incorporation and By-Laws do not vest any other persons with such authority.

Amendments; Supermajority Vote Requirements

The General Corporation Law of the State of Delaware provides generally that the affirmative vote of a majority of the shares entitled to vote on any matter is required to amend a corporation's certificate of incorporation, unless a corporation's certificate of incorporation requires a greater percentage. The Certificate of Incorporation imposes supermajority stockholder vote (66 2/3%) requirements in connection with stockholder amendments to the By-Laws and in connection with the amendment of certain provisions of the Certificate of Incorporation, including those provisions of the Certificate of Incorporation relating to the limitations on voting rights of certain persons, the classified board of directors, removal of directors, and prohibitions on stockholder action by written consent.

Authorized But Unissued Shares

The authorized but unissued shares of Common Stock and preferred stock will be available for future issuance without stockholder approval. These additional shares may be utilized for a variety of corporate purposes, including future public or private offerings to raise additional capital, corporate acquisitions, and employee benefit plans. The existence of authorized but unissued shares of Common Stock and preferred stock could render more difficult, or discourage an attempt to obtain control of Nasdaq by means of a proxy contest, tender offer, merger or otherwise.

Transfer Restrictions on Common Stock

The shares of Common Stock cannot be, directly or indirectly, offered, sold, gifted, pledged, assigned, transferred, or otherwise disposed of (each, for the purposes hereof, a "Transfer") except subject to all applicable laws and:

- (1) with the prior written consent of Nasdaq; or
- (2) until the earlier of (i) the date on which a registration statement filed with the SEC in connection with an initial public offering of shares of Common Stock is declared effective (the "Effective Date"), or (ii) the expiration of two years following June 28, 2000 if a registration statement has not been filed with the SEC in connection with an initial public offering of shares of Common Stock during such two-year period; provided, however, that Nasdaq may elect, in its sole discretion, to further restrict the Transferability of any shares of Common Stock including, without limitation, the shares of Common Stock purchased upon exercise of any warrants, for a period of 180 days following the Effective Date by giving written notice of such election to holders of Common Stock at least 10 days prior to the Effective Date; or
- (3) to a Majority Affiliate. Any Transfer to a Majority Affiliate for

consideration will require that the transferor deliver to Nasdaq, an opinion of the transferor's counsel to the effect that the Transfer of securities by the transferor to a Majority Affiliate (A) complies with the transfer restriction provisions set forth herein and (B) does not require registration under the Securities Act or registration or qualification under any applicable state securities laws. Any Transfer to a Majority Affiliate without consideration will require the transferor to make a written representation to Nasdaq that the Transfer complies with the provisions set forth in this section and was made without consideration.

The following terms are defined as set forth below:

"Affiliate" means, with respect to any specified Person, any other Person who, directly or indirectly, owns or controls, is under common ownership or control with, or is owned or controlled by, such specified Person.

"Majority Affiliate" of any Person means an Affiliate of such Person: (a) a majority of the voting stock or beneficial ownership of which is owned by such Person, or by any Person who, directly or indirectly, owns a majority of the voting stock or beneficial ownership of such Person; (b) who, directly or indirectly, owns a majority of the voting stock or beneficial ownership of such Person; and (c) any Majority Affiliate of any Affiliate described in clause (a) or clause (b) above.

"Person" means any individual, company, limited liability company, corporation, trust, estate, association, nominee, or other entity.

Delaware Business Combination Statute

Nasdaq is organized under Delaware law.

Delaware law generally prohibits a publicly-held or widely-held corporation from engaging in a "business combination" with an "interested stockholder" for three years after the stockholder becomes an interested stockholder. An "interested stockholder" is a person who directly or indirectly owns 15% or more of the corporation's outstanding voting stock. A "business combination" includes a merger, asset sale or other transaction that results in a financial benefit to the interested stockholder. However, Delaware law does not prohibit these business combinations if:

- (1) before the stockholder becomes an interested stockholder the corporation's board approved either the business combination or the transaction that resulted in the stockholder becoming an interested stockholder;
- (2) after the transaction that results in the stockholder becoming an interested stockholder, the interested stockholder owns at least 85% of the corporation's outstanding voting stock (excluding certain shares); or
- (3) the corporation's board approves the business combination and the holders of at least two-thirds of the corporation's outstanding voting stock that the interested stockholder does not own authorize the business combination at a meeting of stockholders.

Item 12. Indemnification of Directors and Officers.

Section 145 of the Delaware General Corporation Law allows for the indemnification of officers, directors, and any corporate agents in terms sufficiently broad to indemnify such person under certain circumstances for liabilities, including reimbursement for expenses, incurred arising under the Securities Act. The Certificate of Incorporation and By-Laws provide that Nasdaq shall indemnify its directors, officers, employees, and members of the Nasdaq Listing and Hearing Review Council to the fullest extent permitted by Delaware law. Nasdaq, in its discretion, may indemnify its agents to the fullest extent and under the circumstances permitted by the Delaware General Corporation Law. The directors and officers of Nasdaq are covered by insurance policies indemnifying them against certain liabilities, including certain liabilities arising under the Securities Act, which might be incurred by them in such capacities and against which they may not be indemnified by Nasdaq.

Item 13. Financial Statements and Supplementary Data.

The following table presents selected quarterly financial data for Nasdaq. The data presented in this table are derived from "Selected Consolidated Financial Data of Nasdaq" and the consolidated financial statements and notes thereto which are included elsewhere in this Registration Statement. You should read those sections for a further explanation of the financial data summarized here. You should also read the "Management's Discussion and Analysis of Financial Condition and Results of Operations of Nasdaq" section, which describes a number of factors which have affected Nasdaq's financial results. The consolidated financial statements are as set forth in the "Index to Consolidated Financial Statements" on page F-1.

Selected Quarterly Financial Data
(in thousands, except earnings per share information)

1st Qtr

2nd Qtr

3rd Qtr

4th Qtr

	1999	1999	1999	1999	Total 1999
Total revenues	\$133,860	\$152,833	\$169,136	\$178,419	\$634,248
Total expenses	93,080	108,115	122,244	176,297	499,736
Net operating income	40,780	44,718	46,892	2,122	134,512
Interest income	2,498	3,314	3,425	2,964	12,201
Interest expense	(472)	(495)	(507)	(669)	(2,143)
Provision for income taxes	(16,456)	(20,483)	(19,332)	(2,150)	(58,421)
Net income	\$26,350	\$27,054	\$30,478	\$2,267	\$86,149
Basic and diluted earnings per share	\$0.26	\$0.27	\$0.30	\$0.02	\$0.86

Pro forma amounts assuming the accounting change is applied retroactively:					
Total revenues	\$133,423	\$145,468	\$159,875	\$168,497	\$607,203
Net income (loss)	\$26,089	\$22,650	\$24,871	\$ (3,666)	\$69,944
Basic and diluted earnings (loss) per share	\$0.26	\$0.23	\$0.25	\$ (0.04)	\$0.70

	1st Qtr 2000 (Restated)	2nd Qtr 2000 (Restated)	3rd Qtr 2000 (Restated)	4th Qtr 2000 (Restated)	Total 2000 (Restated)
Total revenues	\$207,015	\$211,504	\$202,720	\$211,472	\$832,711
Total expenses	131,224	139,753	161,843	203,871	636,691
Net operating income	75,791	71,751	40,877	7,601	196,020
Interest income	2,200	3,205	5,519	9,187	20,111
Interest expense	(483)	(476)	(718)	(453)	(2,130)
Minority interests	-	-	-	872	872
Provision for income taxes	(31,158)	(29,181)	(23,649)	(6,489)	(90,477)
Income before cumulative effect of change in accounting principle	46,350	45,299	22,029	10,718	124,396
Cumulative effect of change in accounting principle	(101,090)	-	-	-	(101,090)
Net income (loss)	\$(54,740)	\$45,299	\$22,029	\$10,718	\$23,306
Basic and diluted earnings per share:					
Before cumulative effect of change in accounting principle	\$0.46	\$0.45	\$0.18	\$0.09	\$1.11
Cumulative effect of change in accounting principle	(1.01)	-	-	-	(0.90)
Net income (loss)	\$(0.55)	\$0.45	\$0.18	\$0.09	\$0.21

Pro forma amounts assuming the accounting change is applied retroactively:					
Total revenues	\$207,015	N/A	N/A	N/A	\$832,711
Net income	\$46,350	N/A	N/A	N/A	\$124,396
Basic and diluted earnings per share	\$0.46	N/A	N/A	N/A	\$1.11

	1st Qtr 2001	2nd Qtr 2001	3rd Qtr 2001
Total revenues	\$222,767	\$221,306	\$197,708
Total expenses	180,673	188,573	190,954
Net operating income	42,094	32,733	6,754
Interest income	6,170	3,807	6,672
Interest expense	(480)	(1,970)	(2,997)
Minority interests	217	1,765	3,252
Provision for income taxes	(21,808)	(16,753)	(5,736)
Net income	\$26,193	\$19,582	\$7,945
Basic earnings per share	\$0.21	\$0.17	\$0.07
Diluted earnings per share	\$0.21	\$0.16	\$0.07

Item 14. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

Not applicable.

Item 15. Financial Statements and Exhibits.

(a) List separately all financial statements filed.

See "Index to Consolidated Financial Statements."

(b) Exhibits.

Exhibit
Number

- 3.1 Restated Certificate of Incorporation of The Nasdaq Stock Market, Inc.(+)
- 3.2 By-Laws of The Nasdaq Stock Market, Inc.
- 4.1 Form of Common Stock certificate.(+)
- 7A Qualitative Disclosure about market risk (incorporated herein by reference to "Item 2 - Financial Information" of this Form 10).
- 9.1 Voting Trust Agreement dated June 28, 2000, among The Nasdaq Stock Market, Inc., the National Association of Securities Dealers, Inc. and The Bank of New York.(+)
- 9.2 First Amendment to the Voting Trust Agreement, dated as of January 18, 2001, among The Nasdaq Stock Market, Inc., the National Association of Securities Dealers, Inc. and The Bank of New York.(+)
- 10.1 Network Service Agreement, dated November 19, 1997, between MCI Telecommunications Corporation and The Nasdaq Stock Market, Inc.*(+)
- 10.2 Consolidated Agreement, between Unisys Corporation and The Nasdaq Stock Market, Inc.*(+)
- 10.3 Network User License Agreement, dated November 30, 1993, between Oracle Corporation and The Nasdaq Stock Market, Inc.*(+)
- 10.4 Software License and Services Agreement, dated November 30, 1993, between Oracle Corporation and The Nasdaq Stock Market, Inc.*(+)
- 10.5 Regulatory Services Agreement, dated June 28, 2000, between NASD Regulation, Inc. and The Nasdaq Stock Market, Inc.*(+)
- 10.6 Separation and Common Services Agreement, dated as of June 28, 2000, between the National Association of Securities Dealers, Inc. and The Nasdaq Stock Market, Inc.(+)
- 10.7 The Nasdaq Stock Market, Inc. 2000 Employee Stock Purchase Plan.(+)
- 10.8 The Nasdaq Stock Market, Inc. Equity Incentive Plan.(+)
- 10.9 Securities Purchase Agreement, dated as of March 23, 2001, among The Nasdaq Stock Market, Inc., Hellman & Friedman Capital Partners IV, L.P. and the other purchasers listed in the signature pages thereto.(+)
- 10.9.1 Securityholders Agreement, dated as of May 3, 2001, among The Nasdaq Stock Market, Inc., Hellman & Friedman Capital Partners IV, L.P., and the other securityholders listed on the signature pages thereto.(^)
- 10.10 Purchase and Sale Agreement, dated March 23, 2001, by and between the National Association of Securities Dealers, Inc. and The Nasdaq Stock Market, Inc.(+)
- 10.11 Employment Agreement between the National Association of Securities Dealers, Inc. and Frank G. Zarb effective on February 24, 1997.(+)
- 10.12 Instrument of Amendment, dated March 18, 1998, to Employment Agreement between National Association of Securities Dealers, Inc. and Frank G. Zarb, effective on February 24, 1997.(+)
- 10.13 Instrument of Amendment, dated as of August 20, 1999, to Employment Agreement between National Association of Securities Dealers, Inc. and Frank G. Zarb, effective on February 24, 1997, as amended effective March 18, 1998.(+)
- 10.14 Instrument of Amendment, dated March 30, 2000, to Employment Agreement between National Association of Securities Dealers, Inc. and Frank G. Zarb, effective on February 24, 1997, as amended effective March 18, 1998, and subsequently amended in August, 1999.(+)
- 10.15 Instrument of Amendment, effective as of July 27, 2000, to Employment Agreement between National Association of Securities Dealers, Inc. and Frank G. Zarb, effective on February 24, 1997, as amended effective March 18, 1998, and subsequently amended in May, 1999, and subsequently amended as of August 30, 2000.(+)
- 10.16 Instrument of Amendment, effective as of November 1, 2000, to Employment Agreement between National Association of Securities Dealers, Inc. and Frank G. Zarb, effective on February 24, 1997, as amended effective March 18, 1998, and subsequently amended as of August, 1999, and subsequently amended on March 30, 2000, and

as of July 27, 2000.(+)

- 10.17 Instrument of Amendment, effective as of April 25, 2001, to Employment Agreement between National Association of Securities Dealers, Inc. and Frank G. Zarb, effective on February 24, 1997, as subsequently amended effective March 18, 1998, August 20, 1999, March 30, 2000, July 27, 2000 and November 1, 2000.(+)
- 10.18 Employment Agreement by and between The Nasdaq Stock Market, Inc. and J. Patrick Campbell, effective as of December 29, 2000.(+)
- 10.18.1 Letter Agreement, dated July 22, 2001, among Frank G. Zarb, the National Association of Securities Dealers, Inc. and The Nasdaq Stock Market, Inc.(<-)
- 10.19 Employment Agreement by The Nasdaq Stock Market, Inc. and John L. Hilley, effective as of December 29, 2000.(+)
- 10.20 Employment Agreement by and between The Nasdaq Stock Market, Inc. and Richard G. Ketchum, effective as of December 29, 2000.(+)
- 10.21 Employment Agreement by and between The Nasdaq Stock Market, Inc. and Hardwick Simmons, dated as of January 31, 2001.(+)
- 10.22 Employment Letter, dated May 31, 1996, from the National Association of Securities Dealers, Inc. to Alfred R. Berkeley, III.
- 11 Statement regarding computation of per share earnings (incorporated herein by reference to "Item 2. Financial Information" of this Form 10).
- 12 Computations of Ratios (not applicable).
- 21.1 List of all subsidiaries.

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- * Confidential treatment has been requested from the U.S. Securities and Exchange Commission for certain portions of this exhibit.
- (+) Previously filed with The Nasdaq Stock Market, Inc.'s Registration Statement on Form 10 (file number 000-32651) filed on April 30, 2001.
- (^) Previously filed with The Nasdaq Stock Market, Inc.'s Amendment No. 1 to Registration Statement on Form 10 (file number 000-32651) filed on May 14, 2001.
- (<-) Previously filed with The Nasdaq Stock Market, Inc.'s Amendment No. 4 to Registration Statement on Form 10 (file number 000-32651) filed on August 31, 2001.

SIGNATURES

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this Amendment No. 5 to the registration statement to be signed on its behalf by the undersigned, thereunto duly authorized.

THE NASDAQ STOCK MARKET, INC.

By: /s/ Edward S. Knight

Name: Edward S. Knight
Title: Executive Vice President
and General Counsel

Date: November 16, 2001

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

The following consolidated financial statements of The Nasdaq Stock Market, Inc. and its subsidiaries are presented herein on the page indicated:

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REPORT OF INDEPENDENT AUDITORS

Board of Directors
The Nasdaq Stock Market, Inc.

We have audited the accompanying consolidated balance sheets of The Nasdaq Stock Market, Inc. ("Nasdaq") (a majority owned subsidiary of the National Association of Securities Dealers, Inc.) as of December 31, 2000 and 1999, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2000. These consolidated financial statements are the responsibility of Nasdaq's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Nasdaq Stock Market, Inc. at December 31, 2000 and 1999, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States.

As discussed in Note 4 to the consolidated financial statements, effective January 1, 2000, Nasdaq changed its method of accounting for certain Corporate Client Group services revenues. Also as discussed in Note 3, effective January 1, 1999, Nasdaq adopted Statement of Position 98-1 "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use."

Ernst & Young LLP

New York, NY
January 26, 2001, except for Note 4, as
to which the date is August 17, 2001

The Nasdaq Stock Market, Inc.

Consolidated Balance Sheets
(In thousands, except share amounts)

	December 31,	
	2000	1999
	(Restated)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 262,257	\$ 10,598
Investments:		
Available-for-sale, at fair value	232,090	153,566
Held-to-maturity, at amortized cost	21,967	10,697
Receivables, net	172,660	112,403
Receivables from related parties	8,250	7,168
Deferred tax asset	32,367	5,213
Other current assets	14,869	12,701
Total current assets	744,460	312,346
Investments:		
Held-to-maturity, at amortized cost	6,612	17,720
Property and equipment:		
Land, buildings and improvements	80,727	56,173
Data processing equipment and software	370,066	246,999
Furniture, equipment and leasehold improvements	134,638	101,658
	585,431	404,830
Less accumulated depreciation and amortization	(252,380)	(192,719)
Total property and equipment, net	333,051	212,111
Investment in warrants, at cost	-	33,480
Non-current deferred tax asset	61,257	

Other assets	25,753	2,597
Total assets	\$ 1,171,133	\$ 578,254

See accompanying notes to consolidated financial statements.

The Nasdaq Stock Market, Inc.
Consolidated Balance Sheets (continued)
(In thousands, except share amounts)

	December 31,	
	2000	1999
	(Restated)	
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	\$ 117,867	\$ 68,585
Accrued personnel costs	37,273	30,505
Deferred revenue	66,178	-
Other accrued liabilities	35,374	27,626
Due to banks	13,876	8,819
Payables to related parties	19,158	11,742
Total current liabilities	289,726	147,277
Long-term debt	25,000	25,000
Accrued pension costs	10,390	7,073
Non-current deferred tax liability, net	32,116	10,928
Deferred revenue non-current	138,166	-
Deferred revenue, investment in warrants, at cost	-	33,480
Other liabilities	15,033	2,484
Total long-term liabilities	220,705	78,965
Total liabilities	510,431	226,242
Minority interests	15,543	-
Stockholders' equity		
Common stock, \$.01 par value, 300,000,000 authorized, shares issued and outstanding: 123,663,746 in 2000 and 100,000,000 in 1999	1,237	1,000
Additional paid-in capital	273,387	149
Unrealized gains on available-for-sale investments, net of tax	321	1,742
Foreign currency translation	(2,213)	-
Retained earnings	372,427	349,121
Total stockholders' equity	645,159	352,012
Total liabilities, minority interest and stockholders' equity	\$ 1,171,133	\$ 578,254

See accompanying notes to consolidated financial statements.

The Nasdaq Stock Market, Inc.
Consolidated Statements of Income
(In thousands, except share amounts)

	Years ended December 31,		
	2000	1999	1998
	(Restated)		
Revenues			
Transaction services	\$ 395,123	\$ 283,652	\$ 160,506
Market information services	258,251	186,543	152,665
Corporate Client Group services	149,297	163,425	137,344
Other	30,040	628	308
Total revenues	832,711	634,248	450,823
Expenses			

Compensation and benefits	137,284	98,129	78,565
Marketing and advertising	45,908	62,790	42,483
Depreciation and amortization	65,645	43,696	34,984
Professional and contract services	61,483	35,282	35,127
Computer operations and data communications	138,228	100,493	72,111
Travel, meetings and training	12,113	10,230	7,750
Occupancy	14,766	6,591	5,354
Publications, supplies and postage	7,181	4,670	5,208
Other	25,561	22,666	14,742
Total direct expenses	508,169	384,547	296,324
Support cost from related parties, net	128,522	115,189	100,841
Total expenses	636,691	499,736	397,165
Net operating income	196,020	134,512	53,658
Interest income	20,111	12,201	9,269
Interest expense	(2,130)	(2,143)	(1,962)
Provision for income taxes	(90,477)	(58,421)	(26,010)
Minority interests	872	-	-
Income before cumulative effect of change in accounting principle	124,396	86,149	34,955
Cumulative effect of change in accounting principle, net of taxes of \$67,956 (Note 4)	(101,090)	-	-
Net income	\$ 23,306	\$ 86,149	\$ 34,955
Basic and diluted earnings per share:			
Before cumulative effect of change in accounting principle	\$1.11	\$0.86	\$0.35
Cumulative effect of change in accounting principle	(0.90)	-	-
Net income	\$0.21	\$0.86	\$0.35

The Nasdaq Stock Market, Inc.

Consolidated Statements of Income (continued)
(In thousands, except share amounts)

Pro forma amounts assuming the accounting change is applied retroactively:

Net income	\$124,396	\$69,944	\$31,332
Basic and diluted earnings per share	\$1.11	\$0.70	\$0.31

See accompanying notes to consolidated financial statements.

The Nasdaq Stock Market, Inc.
Consolidated Statements of Changes in Stockholders' Equity
(In thousands, except share amounts)

	Number of Common Shares Outstanding 1	Common Stock 1	Additional Paid in Capital1	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, January 1, 1998	100,000,000	\$ 1,000	\$ 149	\$ 228,017	\$ -	\$ 229,166
Net income	-	-	-	34,955	-	34,955
Unrealized gains on available-for-sale investments, net of tax of \$1,088	-	-	-	-	2,020	2,020
Comprehensive income	-	-	-	-	-	36,975
Balance, December 31, 1998	100,000,000	1,000	149	262,972	2,020	266,141
Net income	-	-	-	86,149	-	86,149

Unrealized losses on available-for-sale investments, net of tax of \$(149)	-	-	-	-	(278)	(278)
Comprehensive income	-	-	-	-	-	85,871
Balance, December 31, 1999	100,000,000	1,000	149	349,121	1,742	352,012
Net income	-	-	-	23,306	-	23,306
Unrealized losses on available-for-sale investments, net of tax of \$(765)	-	-	-	-	(1,421)	(1,421)
Foreign currency translation, net of minority interests of \$(1,185)	-	-	-	-	(2,213)	(2,213)
Comprehensive income	-	-	-	-	-	19,672
Capital contribution	-	-	30,000	-	-	30,000
Minority interest resulting from original share of equity in Nasdaq Europe Planning Company Limited	-	-	(17,600)	-	-	(17,600)
Adjustment to carrying amount of investment in Nasdaq Japan due to its private placement	-	-	7,784	-	-	7,784
Net proceeds from Phase I offering	23,663,746	237	253,054	-	-	253,291
Balance, December 31, 2000 (Restated)	123,663,746	\$ 1,237	\$ 273,387	\$ 372,427	\$ (1,892)	\$ 645,159

1 Gives effect the June 28, 49,999-for-one stock dividend of the shares of Common Stock for years December 31, 1998 and 1999.

See accompanying notes to consolidated financial statements.

The Nasdaq Stock Market, Inc.
Consolidated Statements of Cash Flows
(In thousands)

	Years ended December 31,		
	2000	1999	1998
	(Restated)		
Cash flow from operating activities			
Cash received from customers	\$ 713,408	\$ 527,946	\$ 400,918
Cash paid to suppliers and employees	(281,601)	(248,173)	(212,006)
Cash paid to related parties, net	(122,188)	(104,761)	(109,563)
Income taxes paid	(101,171)	(49,992)	(24,131)
Interest received, net	19,624	10,320	7,699
Other	21,248	(715)	(6,194)
Cash provided by operating activities	249,320	134,625	56,723
Cash flow from investing activities			
Proceeds from redemptions of available-for-sale investments	154,931	107,328	-
Purchases of available-for-sale investments	(237,241)	(131,291)	-
Proceeds from maturities of held-to-maturity investments	10,811	30,743	100,845
Purchases of held-to-maturity investments	(10,973)	(30,990)	(129,624)
Acquisition, net of cash acquired	(16,979)	-	-
Purchases of property and equipment	(189,666)	(110,489)	(39,729)
Proceeds from sales of property and equipment	3,108	4,042	10,358
Cash used in investing activities	(286,009)	(130,657)	(58,150)
Cash flow from financing activities			
Increase in due to banks	5,057	3,876	156
Proceeds from Phase I private placement offering	253,291	-	-
Contributions from minority shareholders	30,000	-	-
Cash provided by financing activities	288,348	3,876	156
Increase (decrease) in cash and cash equivalents	251,659	7,844	(1,271)
Cash and cash equivalents at beginning of period	10,598	2,754	4,025
Cash and cash equivalents at end of period	\$ 262,257	\$ 10,598	\$ 2,754
Reconciliation of net income to cash provided by operating activities			
Net income	\$ 23,306	\$ 86,149	\$ 34,955
Non-cash items included in net income:			
Cumulative effect of change in accounting principle, net of taxes	101,090	-	-
Depreciation and amortization	65,645	43,696	34,984
Stock-based compensation	3,788	-	-
Other non-cash items included in net income	3,132	-	-
Minority interests	(872)	-	-
Net change in:			
Receivables, net	(59,885)	(39,897)	(18,762)
Receivables from related parties	(1,082)	2,497	(6,670)

Other current assets	(2,168)	(6,521)	(380)
Deferred tax asset	(83,344)	(1,316)	-
Other assets	(6,690)	4,866	(4,688)
Accounts payable and accrued expenses	49,256	18,815	7,607
Accrued personnel costs	6,685	9,660	3,966
Deferred revenue	103,254	1,413	2,758
Accrued liabilities	7,643	2,569	9,545
Payables to related parties	7,416	7,931	(2,052)
Accrued pension costs	3,317	2,507	(3,414)
Non-current deferred tax liability, net	16,280	2,770	-
Other liabilities	12,549	(514)	(1,126)

Cash provided by operating activities	\$ 249,320	\$ 134,625	\$ 56,723
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See accompanying notes to consolidated financial statements.

The Nasdaq Stock Market, Inc.
Notes to the Consolidated Financial Statements

1. Organization and Nature of Operations

The Nasdaq Stock Market, Inc. ("Nasdaq") is the parent company of Nasdaq Global Holdings ("Nasdaq Global"); Quadsan Enterprises, Inc.; Nasdaq Tools, Inc.; Nasdaq Financial Products Services, Inc. (formerly Nasdaq Investment Product Services, Inc.); Nasdaq International Market Initiatives, Inc.; and Nasdaq Canada, Inc.; collectively referred to as Nasdaq. These entities are wholly-owned by Nasdaq. Nasdaq is a majority owned subsidiary of the National Association of Securities Dealers, Inc. (the "NASD").

At a special meeting of the NASD members held on April 14, 2000, more than a majority of NASD members approved a plan to broaden the ownership in Nasdaq through a two-phase private placement of (1) newly-issued shares of Common Stock, and (2) Common Stock and warrants to purchase shares of Common Stock owned by the NASD (the "Restructuring"), to all NASD members, Nasdaq issuers and institutional investor firms. The Restructuring is intended, among other things, to strategically realign the ownership of Nasdaq, minimize potential conflicts of interest between Nasdaq and NASDR and allow Nasdaq to respond to current and future competitive challenges caused by technological advances and the increasing globalization of financial markets.

In connection with the first phase ("Phase I") of the Restructuring, (1) the NASD separated the American Stock Exchange LLC ("Amex") from The Nasdaq-Amex Market Group, Inc. ("Market Group"), a holding company which was a subsidiary of the NASD; (2) Market Group was then merged with and into Nasdaq; (3) Nasdaq then effected a 49,999-for-one stock dividend creating 100 million shares of Common Stock outstanding (all of which were initially owned by the NASD); and (4) Nasdaq authorized the issuance of an additional 30.9 million in new shares to be offered for sale by Nasdaq. All share and per share amounts have been retroactively adjusted to reflect the June 28, 2000 49,999-for-one stock dividend.

Phase I of the Restructuring closed on June 28, 2000 with Nasdaq selling 23.7 million of its newly issued shares, yielding net proceeds of approximately \$253.3 million. As of December 31, 2000, the NASD owned approximately 81% of Nasdaq. During Phase I of the Restructuring, the NASD sold warrants to purchase shares of Nasdaq Common Stock, which if fully exercised, would decrease the NASD's ownership to approximately 60%. The second phase ("Phase II") of the Restructuring closed on January 18, 2001 (see Note 15).

Nasdaq operates in one segment as defined in the Statement of Financial Accounting Standards No. 131 "Disclosures About Segments of an Enterprise and Related Information" ("SFAS 131"). Nasdaq uses a multiple market maker system to operate an electronic, screen-based equity market. Nasdaq's principal business products are price discovery and trading services, listing of issues, and the sale of related data and information. The majority of this business is transacted with listed companies, market data vendors and firms in the broker-dealer industry within the United States.

Nasdaq Global, which is incorporated in Switzerland, is the holding company for Nasdaq's investments in Nasdaq Europe Planning Company Limited, IndigoMarkets (sm) Ltd. ("IndigoMarkets") and Nasdaq Japan, Inc. ("Nasdaq Japan") in which it has 56.0%, 55.0% and 39.2% interests, respectively, as of December 31, 2000. Quadsan Enterprises, Inc. is a Delaware Investment Holding Company that provides investment management services for Nasdaq. Nasdaq Financial Products Services, Inc. is the sponsor of the Nasdaq-100 Trust. Nasdaq International Market Initiatives, Inc. offers a variety of consulting services to assist emerging and established securities markets around the world with both technology applications and regulation. Nasdaq Tools, Inc. provides software products and services related to the broker-dealer industry to be used in conjunction with the Nasdaq Workstation II software.

2. Significant Transactions

The NASD formed a joint venture, Nasdaq Europe Planning Company Limited, in February 2000 with SOFTBANK Corp. of Japan, Vivendi, and Epartners, whereby each partner contributed \$10 million in cash. The NASD contributed \$10 million cash, licensing of its brand and provided technology expertise and management leadership in exchange for a 56% interest in this venture. As

part of the Restructuring, the NASD's ownership interest in Nasdaq Europe Planning Company Limited was transferred to Nasdaq Global.

Nasdaq Europe Planning Company Limited was treated as a consolidated entity in Nasdaq and the NASD financial statements. See "Note 15--Subsequent Events."

On March 7, 2000, Nasdaq acquired Financial Systemware, Inc. (now known as Nasdaq Tools), a company that develops and markets a set of software utilities that can be loaded on a Nasdaq Workstation II terminal to enhance the features and functionalities of the Nasdaq Workstation II software. This acquisition has been accounted for using the purchase method of accounting, and accordingly, assets acquired and liabilities assumed have been recorded at their estimated fair values at the date of acquisition. The results of operations of Nasdaq Tools are included in the consolidated statements of income and stockholders' equity from the acquisition date. Periods prior to the acquisition date are not included in the consolidated statements of income and stockholders' equity.

Upon closing of the transaction, Nasdaq acquired 100% of Financial Systemware's issued and outstanding stock for \$7.3 million. Goodwill of \$6.5 million recorded as a result of the acquisition is being amortized on a straight-line basis over five years. Additionally, the Nasdaq Tools principals, the sellers, will collectively be paid \$25.0 million. Of this amount, \$10.0 million was paid upon closing and is being recognized as expense on a straight-line basis over five years. Five cash payments of \$3.0 million each will be paid over the five years following closing, contingent upon the continued employment and development efforts of the Nasdaq Tools principals. The unamortized goodwill and other intangible assets related to the acquisition of Nasdaq Tools are \$5.4 million and \$8.3 million, respectively, as of December 31, 2000 and are included in other assets in the consolidated balance sheets.

In May 2000, IndigoMarkets was established for the purpose of creating market systems for Nasdaq global markets, including Nasdaq Japan.

In 1999, the NASD contributed approximately \$2.6 million for its initial 50% interest in Nasdaq Japan. After granting a restricted stock award of 4% of its shares, the NASD transferred its remaining 46% interest to Nasdaq Global. In October 2000, Nasdaq Japan sold an approximate 15% stake for approximately \$48 million to a group of 13 major Japanese, U.S. and European brokerages, thereby reducing Nasdaq Global's interest from 46% to approximately 39%. As a result of the private placement, Nasdaq increased the carrying value of its investment by \$8 million, through stockholders' equity, to reflect its adjusted share of the book value of Nasdaq Japan. Nasdaq accounts for its investment in Nasdaq Japan under the equity method of accounting.

3. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Nasdaq and its majority owned subsidiaries. All non-majority owned investments are accounted for under the equity method of accounting. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include demand cash and all non-restricted investments purchased with a remaining maturity of three months or less at the time of purchase. Such investments included in cash and cash equivalents in the consolidated balance sheets were \$218.5 million and \$7.1 million at December 31, 2000 and 1999, respectively.

Investments

Under Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities," management determines the appropriate classification of investments at the time of purchase. Investments for which Nasdaq does not have the intent or ability to hold to maturity are classified as "available-for-sale" and are carried at fair market value, with the unrealized gains and losses, net of tax, reported as a separate component of stockholders' equity. Investments for which Nasdaq has the intent and ability to hold to maturity are classified as "held-to-maturity" and are carried at amortized cost. The amortized cost of debt securities classified as held-to-maturity or available-for-sale is adjusted for amortization of premiums and accretion of discounts, which are included in interest income. Realized gains and losses on sales of securities are included in earnings using the specific identification method.

A decline in the market value of any available-for-sale or held-to-maturity security below cost, that is deemed to be other than temporary, results in a reduction in carrying amount to fair value. The impairment is charged to earnings and a new cost basis for the security is established.

Receivables, Net

Nasdaq's receivables are concentrated with NASD member firms, market data vendors and Nasdaq issuers. Receivables are shown net of reserves for uncollectable accounts. Reserves are calculated based on the age and source of the underlying receivable and are tied to past collections experience. Total reserves netted against receivables in the consolidated balance sheets were \$5.4 million and \$3.0 million at December 31, 2000 and 1999, respectively.

Property and Equipment

Property and equipment are recorded at cost less accumulated depreciation. Equipment acquired under capital leases is recorded at the lower of fair market value or the present value of future lease payments. Depreciation and amortization are provided on the straight-line method. Estimated useful lives generally range from 10 years to 40 years for buildings and improvements, 2 years to 5 years for data processing equipment and software, and 5 years to 10 years for furniture and equipment. Leasehold improvements are amortized using the straight-line method over the lesser of the useful life of the improvement or the term of the applicable lease.

Impairment of Long-Lived Assets

In the event that facts and circumstances indicate that long-lived assets or other assets may be impaired, such as obsolescence, an evaluation of recoverability would be performed. If an evaluation were required, the estimated future undiscounted cash flows associated with the asset would be compared to the asset's carrying amount to determine if a write-down is required. If a write-down were required, Nasdaq would prepare a discounted cash flow analysis to determine the amount of the write-down.

Revenue Recognition

Market information services revenues are based on the number of presentation devices in service and quotes delivered through those devices. These revenues are recorded net of amounts due under revenue sharing arrangements with market participants. Market information services revenues are recognized in the month that information is provided. Transaction services revenues are variable based on service volumes and are recognized as transactions occur. Issuer annual listing services revenues are recognized ratably over the following 12-month period. For 1999 and 1998, issuer initial listing fees were recognized in the month listing occurred and issuer additional share fees were recognized in the period the incremental shares were issued. Effective January 1, 2000, the accounting for these fees changed as described in Note 4.

Deferred Revenue

Deferred revenues represent cash received and billed receivables, which are unearned, until services are provided.

Advertising Costs

Nasdaq expenses advertising costs, which included media advertising and production cost, in the periods in which the costs are incurred. Media advertising and production costs included as marketing and advertising in the consolidated statements of income totaled \$35.3 million, \$45.3 million and \$36.2 million for 2000, 1999, and 1998, respectively.

Software Costs

Significant purchased application software, and operational software that is an integral part of computer hardware, are capitalized and amortized on the straight-line method over their estimated useful lives, generally two to five years. All other purchased software is charged to expense as incurred.

Nasdaq adopted Statement of Position ("SOP") 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" effective January 1, 1999. The provisions of this SOP require certain costs incurred in connection with developing or obtaining internal use software to be capitalized. Unamortized capitalized software development costs of \$37.8 million and \$14.7 million as of December 31, 2000 and 1999, respectively, are carried in data processing equipment and software in the consolidated balance sheets. Amortization of costs capitalized under SOP 98-1 totaled \$2.3 million and \$0.5 million for 2000 and 1999 and is included in depreciation and amortization in the consolidated statements of income.

Income Taxes

Nasdaq and its subsidiaries are taxable entities. Deferred tax assets and liabilities are determined based on differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities (i.e., temporary differences) and are measured at the enacted rates that will be in effect when these differences reverse.

Foreign Currency Translation

Assets and liabilities of non-U.S. subsidiaries that operate in a local currency environment are translated to U.S. dollars at exchange rates in effect at the balance sheet date. Translation adjustments resulting from this process are charged or credited to other comprehensive income. Revenue and expenses are translated at average exchange rates during the year. Gains and losses on foreign currency translations are included in other expenses.

Minority Interests

Minority interests in the consolidated balance sheets represents the minority owners' share of equity as of the balance sheet date. Minority interests in the consolidated statements of income represent the minority owners' share of the income or loss of certain consolidated subsidiaries.

Classifications

Certain amounts for the prior years have been reclassified to conform with the 2000 presentation. In addition, the financial statements for the year ended December 31, 2000 have been restated for the change in accounting principle described in Note 4.

4. Change in Accounting Principle

On August 17, 2001, Nasdaq concluded discussions with the SEC with respect to the implementation in its financial statements of Staff Accounting Bulletin 101, "Revenue Recognition in Financial Statements" ("SAB 101"), which became effective for SEC public reporting companies in the fourth quarter of 2000. Nasdaq became a SEC public reporting company on June 29, 2001, the effective date of this Registration Statement. As a result of the discussions with the SEC, Nasdaq changed its method of accounting for revenue recognition for certain components of its Corporate Client Group services revenues. In accordance and consistent with generally accepted accounting principles, as SAB 101 was adopted effective the fourth quarter of 2000, the change in accounting principle has been applied as of January 1, 2000. In accordance with applicable accounting guidance prior to SAB 101, Nasdaq recognized revenues for issuer initial listing fees and listing of additional shares ("LAS") fees in the month the listing occurred or in the period additional shares were issued, respectively. Nasdaq now recognizes revenue related to initial listing fees and LAS fees on a straight line basis over estimated service periods, which are six and four years, respectively.

Nasdaq recognized a one-time cumulative effect of a change in accounting principle in the first quarter of 2000. This cumulative effect of a change in accounting principle decreased net income in the year ended December 31, 2000 by \$101.1 million (\$0.90 per share) resulting in net income of \$23.3 million (\$0.21 per share). The adjustment to December 31, 2000 net income for the cumulative change to prior years' results consists of the following:

(amounts in thousands)	
Deferred Initial fees	\$ 108,476
Deferred LAS fees	60,570

Total deferred fees	169,046
Deferred income tax benefit	(67,956)

Cumulative effect of change in accounting principle	\$ 101,090
	=====

As a result of the change in accounting principle, for the year ended December 31, 2000, revenues decreased \$35.5 million and pro forma net income, excluding the cumulative change in accounting principle, decreased \$20.8 million (\$0.19 per share).

For the year ended December 31, 2000, Nasdaq recognized \$55.7 million in revenue that was included in the cumulative effect adjustment as of January 1, 2000. This revenue contributed \$33.3 million (after income taxes of \$22.4 million) to net income for the year ended December 31, 2000.

The change in accounting principle affects the primary financial statements and income tax and earnings per share disclosures in Notes 8 and 14, respectively.

Deferred Revenue

Nasdaq's deferred revenue as of December 31, 2000 relating to Corporate Client Group services fees will be recognized in the following years:

(amounts in thousands)				
(in thousands)	Initial	LAS	Annual	Total
	-----	-----	-----	-----
Fiscal year ended				
2001	\$34,532	\$31,646	\$ -	\$66,178
2002	29,739	23,118	-	52,857
2003	25,099	16,219	-	41,318
2004	20,373	5,668	-	26,041
2005 and thereafter	17,950	-	-	17,950
	-----	-----	-----	-----
	\$127,693	\$76,651	\$ -	\$204,344
	=====	=====	=====	=====

Nasdaq's deferred revenue for the year ended December 31, 2000 is reflected in the following table. The additions reflect Corporate Client Group services fees charged during the year while the amortization reflects Corporate Client Group services fee revenues recognized during the year based on the accounting methodology described above.

(amounts in thousands)	Initial	LAS	Annual	Total
Balance at January 1, 2000	\$108,476	\$60,570	\$ -	\$169,046
Additions	53,129	49,713	81,753	184,595
Amortization	(33,912)	(33,632)	(81,753)	(149,297)
Balance at December 31, 2000	\$127,693	\$76,651	\$ -	\$204,344

5. Investments

Investments consist of U.S. Treasury securities obligations of U.S. Government sponsored enterprises, municipal bonds, equity securities and other financial instruments. Following is a summary of investments classified as available for sale which are carried at fair value as of December 31, 2000:

(amounts in thousands)	Available-for-Sale Securities			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2000				
U.S. Treasury securities and obligations of U.S. government agencies	\$109,350	\$542	\$59	\$109,834
Obligations of states and political subdivisions	43,664	55	954	42,765
Asset-backed securities	52,846	202	513	52,535
U.S. corporate securities	6,018	61	90	5,988
Other debt securities	649	9	-	658
Total debt securities	212,527	869	1,616	211,780
Equity securities	19,069	3,584	2,343	20,310
Total	\$231,596	\$4,453	\$3,959	\$232,090

Following is a summary of investments classified as held to maturity which are carried at amortized cost as of December 31, 2000:

(amounts in thousands)	Held-to-Maturity Securities			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2000				
U.S. Treasury securities and obligations of U.S. government agencies	\$28,579	\$45	\$32	\$28,592
Obligations of states and political subdivisions	-	-	-	-
Asset-backed securities	-	-	-	-
U.S. corporate securities	-	-	-	-
Other debt securities	-	-	-	-
Total	\$28,579	\$45	\$32	\$28,592

Following is a summary of investments classified as available for sale which are carried at fair value as of December 31, 1999:

(amounts in thousands)	Available-for-Sale Securities			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 1999				

U.S. Treasury securities and obligations of U.S. government agencies	\$68,751	\$135	\$487	\$68,399
Obligations of states and political subdivisions	37,140	-	792	36,348
Asset-backed securities	16,814	1	657	16,158
U.S. corporate securities	9,055	1	164	8,892
Other debt securities	-	-	-	-
Total debt securities	131,760	137	2,100	129,797
Equity securities	19,125	5,642	998	23,769
Total	\$150,885	\$5,779	\$3,098	\$153,566

Following is a summary of investments classified as held to maturity which are carried at amortized cost as of December 31, 1999:

(amounts in thousands)	Held-to-Maturity Securities			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 1999				
U.S. Treasury securities and obligations of U.S. government agencies	\$ 28,417	\$ 7	\$ 617	\$ 27,807
Obligations of states and political subdivisions	-	-	-	-
Asset-backed securities	-	-	-	-
U.S. corporate securities	-	-	-	-
Other debt securities	-	-	-	-
Total	\$ 28,417	\$ 7	\$ 617	\$ 27,807

The amortized cost and estimated fair value of debt and marketable equity securities at December 31, 2000, by contractual maturity, are shown below.

Following is a summary of investments classified as available-for-sale which are carried at fair value as of December 31, 2000:

	Amortized Cost	Gross Unrealized		Fair Value
		Gain	Loss	
Due in one year or less	\$ 89,094	\$ 204	\$ (1)	\$ 89,297
Due after one year through five years	123,433	665	(1,615)	122,483
Equity securities	19,069	3,584	(2,343)	20,310
Total	\$ 231,596	\$ 4,453	\$ (3,959)	\$ 232,090

Following is a summary of investments classified as held-to-maturity which are carried at amortized cost as of December 31, 2000:

	Amortized Cost	Gross Unrealized		Fair Value
		Gain	Loss	
Due in one year or less	\$ 21,967	\$ 19	\$ (32)	\$ 21,954
Due after one year through five years	6,612	26	-	6,638
Total	\$ 28,579	\$ 45	\$ (32)	\$ 28,592

During the years ended December 31, 2000, and 1999, debt and marketable equity available-for-sale securities with a fair value at the date of sale of \$72.7 million and \$145.6 million, respectively, were sold. The gross realized gains on such sales totaled \$2.8 million and \$830,000, respectively, and the gross realized losses totaled \$955,000 and \$998,000, respectively. The net adjustment to unrealized holding gains (losses) on available-for-sale securities included as a separate component of shareholders' equity totaled \$(224,000) and \$3.0 million, respectively.

Nasdaq considers cash and cash equivalents, accounts receivable, investments, accounts payable and accrued expenses, due to banks, and long-term debt to be its financial instruments. The carrying amount reported in the balance sheet for cash and cash equivalents, accounts receivable, investments, accounts payable and accrued expenses, and due to banks closely approximate their fair values. The approximate fair value of Nasdaq's long-term debt was estimated using a discounted cash flow analysis, based on Nasdaq's assumed incremental borrowing rates for similar types of borrowing arrangements. This analysis indicates that the fair value of Nasdaq's long-term debt at December 31, 2000 and 1999 approximates its carrying amount.

7. Long-Term Debt

In May 1997, Nasdaq entered into a \$25.0 million note payable with a financial institution (the "Lender"). Principal payments are scheduled to begin in 2007 and continue in equal monthly instalments until maturity in 2012. The note requires monthly interest payments through May 2007 at an annual rate of 7.41%. After May 2007, Nasdaq will incur interest equal to the Lender's cost of funds rate, as defined in the agreement, plus 0.5%. Interest expensed and paid under the agreement totaled approximately \$1.9 million for each of the years ended December 31, 2000, 1999 and 1998.

8. Income Taxes

The income tax provision includes the following amounts:

	Years Ended December 31,		
	2000	1999	1998
Current income taxes:			
Federal	\$ 75,446	\$ 46,482	\$ 22,930
State	14,138	11,599	5,196
Total current income taxes	89,584	58,081	28,126
Deferred income taxes:			
Federal	(53,717)	273	(1,695)
State	(13,346)	67	(421)
Total deferred income taxes	(67,063)	340	(2,116)
	22,521	58,421	26,010
Less deferred tax benefit attributable to cumulative effect of change in accounting principle	67,956	-	-
Total provision for income taxes	\$ 90,477	\$ 58,421	\$ 26,010
Income taxes paid during the periods	\$ 101,171	\$ 49,992	\$ 24,131

8. Income Taxes (continued)

Reconciliations of the statutory U.S. federal income tax rates to the effective tax rates are as follows:

	Years Ended December 31,		
	2000	1999	1998
Federal	35.0%	35.0%	35.0%
State	3.6	5.2	5.1
Foreign losses without US benefit	2.9	-	-
Other, net	0.6	0.2	2.6
Effective rate	42.1%	40.4%	42.7%

Components of Nasdaq's deferred tax assets and liabilities consisted of the following:

	December 31,	
	2000	1999
Deferred tax assets:		
Deferred fees	\$ 82,600	\$ 2,233
Compensation and benefits	1,592	179
Bad debts	5,139	2,801
Other	4,293	-
Total deferred tax assets	\$ 93,624	\$ 5,213

Deferred tax liabilities:		
Depreciation	\$ (12,492)	(9,966)
Software development costs	(19,624)	(5,184)
Other	-	4,222
	-----	-----
Total deferred tax liabilities, net	\$ (32,116)	\$ (10,928)
	=====	=====

Due to the Nasdaq's foreign operations, it has approximately \$5.0 million of foreign deferred tax assets, primarily Net Operating Losses, the majority of which expire in seven years. These in-country deferred tax assets have been fully reserved by an offsetting Valuation Allowance as it is not "more likely than not" that these deferred tax assets will be realized.

9. Employee Benefits

Nasdaq is a participating employer in a noncontributory, defined-benefit pension plan, along with other arrangements, that the NASD maintains for the benefit of eligible employees of its subsidiaries. The benefits are primarily based on years of service and the employees' average salary during the highest 60 consecutive months of employment. The plan assets consist primarily of fixed income and equity securities.

The following table sets forth the plans' funded status and amounts recognized in the Nasdaq balance sheets of December 31:

	Pension Benefits	
	2000	1999
	-----	-----
Change in benefit obligation		
Benefit obligation at beginning of year	\$ 39,773	\$ 33,184
Service cost	4,543	3,304
Interest cost	3,246	2,448
Actuarial losses	5,488	7,363
Benefits paid	(1,988)	(2,246)
(Gain) loss due to change in discount rate	2,605	(4,280)
	-----	-----
Benefit obligation at end of year	\$ 53,667	\$ 39,773
	-----	-----
Change in plan assets		
Fair value of plan assets at beginning of year	\$ 28,312	\$ 22,801
Actual return on plan assets	2,058	5,276
Company contributions	3,082	2,480
Benefits paid	(1,988)	(2,245)
	-----	-----
Fair value of plan assets at end of year	\$ 31,464	\$ 28,312
	-----	-----
Funded status of the plan (underfunded)	\$ (22,203)	(11,461)
Unrecognized net actuarial gain	8,393	1,444
Unrecognized prior service cost	906	976
Unrecognized transition obligation/(asset)	(390)	(447)
	-----	-----
Accrued benefit cost	\$ (13,294)	\$ (9,488)
	=====	=====

As of December 31, 2000 and 1999, \$2.9 million and \$2.4 million, respectively, of the accrued pension liability is carried as current in the accounts payable and accrued expenses line of the consolidated balance sheets.

	Pension Benefits	
	2000	1999
	-----	-----
Weighted-average assumptions as of December 31		
Discount rate	7.5%	8.0%
Expected return on plan assets	9.0	9.0
Rate of compensation increase	5.2	5.3

	Pension Benefits		
	2000	1999	1998
	-----	-----	-----
Components of net periodic benefit cost			
Service cost	\$ 4,543	\$ 3,304	\$ 2,817

Interest cost	3,246	2,448	2,039
Expected return on plan assets	(2,533)	(2,261)	(1,693)
Amortization of unrecognized transition asset	(57)	(57)	(57)
Recognized net actuarial loss	145	101	65
Prior service cost recognized	131	133	131
Curtailment/settlement loss recognized	1,296	-	-

Benefit cost	\$ 6,771	\$ 3,668	\$ 3,302
	=====		

Nasdaq also participates in a voluntary savings plan for eligible employees of the NASD and its subsidiaries. Employees are immediately eligible to make contributions to the plan and are also eligible for an employer contribution match at an amount equal to 100% of the first 4% of eligible employee contributions. Eligible plan participants may also receive an additional discretionary match from Nasdaq. Savings plan expense for the years ended December 31, 2000, 1999, 1998 was \$3.7 million, \$2.9 million, and \$2.0 million, respectively. The expense included a discretionary match authorized by the NASD Board of Governors totaling \$1.3 million for the year ended December 31, 2000, \$1.3 million for the year ended December 31, 1999, and \$1.0 million for the year ended December 31, 1998.

In December 2000, the Nasdaq Board of Directors approved the implementation of an equity incentive plan and an employee stock purchase plan. The plans will be submitted to Nasdaq stockholders for their approval. As of December 31, 2000, no grants had been made under the plans.

In May and July 2000, restricted common stock and options on common stock of Nasdaq Japan were awarded to certain Nasdaq officers and key employees who devote substantial time to the business of Nasdaq Japan. These awards contain restrictions and are subject to vesting provisions. The stock options were granted at an exercise price of \$125 per share, the estimated fair value of the stock at the time of the award. They are exercisable for a period of 7.0 years, and are subject to vesting provisions, generally three years. As of December 31, 2000 there were 820 stock options outstanding to purchase shares of Nasdaq Japan held by Nasdaq Global, none of them exercisable, with an approximate value of \$6,175 per share. The restricted stock award was for 1,900 shares at the estimated fair value of \$125 per share. Approximately one-third of the shares vested immediately while the remaining two-thirds vest over a two year period. As of December 31, 2000, the restricted stock had an approximate value of \$6,250 per share. All share and dollar amounts reflect a four-for-one stock split of Nasdaq Japan shares in April 2001.

The stock options and restricted stock awards are marked to market, and the fair value is being expensed over the vesting periods. Nasdaq recorded approximately \$3.8 million in compensation expense during 2000 related to these awards.

10. Leases

Nasdaq leases certain office space and equipment in connection with its operations. The majority of these leases contain escalation clauses based on increases in property taxes and building operating costs. Certain of these leases also contain renewal options. Rent expense for operating leases was \$9.9 million for the year ended December 31, 2000, \$4.0 million for the year ended December 31, 1999 and \$1.4 million for the year ended December 31, 1998.

Future minimum lease payments under noncancellable operating leases with initial or remaining terms of one year or more consisted of the following at December 31, 2000:

Year ending December 31:

2001	\$ 13,455
2002	16,034
2003	16,047
2004	16,376
2005	16,234
Remaining years	126,259

Total minimum lease payments	\$ 204,405
	=====

Future minimum lease payments under noncancellable capital leases with initial or remaining terms of one year or more consisted of the following at December 31, 2000:

Year ending December 31:

2001	\$ 6,462
2002	6,462
2003	3,231
2004	-
2005	-
Remaining years	-

11. Warrants

In connection with the OptiMark, Inc. ("OptiMark") partnership, OptiMark agreed to issue to Nasdaq warrants to purchase up to an aggregate of 11.25 million shares of its common stock, \$0.01 par value per share. The warrants are exercisable in several tranches upon the achievement of certain milestones, which are based primarily upon the average daily share volume of Nasdaq-listed securities traded through the OptiMark Trading System. The first milestone was the warrant commencement date, which occurred on October 11, 1999. On that date, Nasdaq received two fully exercisable warrants from OptiMark to purchase 4.5 million shares. The first 2.25 million shares may be purchased at an exercise price of \$5.00 per share. All remaining warrants provide that shares may be purchased at an exercise price of \$7.00 per share. The warrants are exercisable through the earlier of (i) the last day that the OptiMark System continues to be available on all Nasdaq Workstation II workstations and (ii) the fifth anniversary of the warrant commencement date, or October 11, 2004. As of October 11, 1999, these warrants had a combined value of \$33.5 million that is considered to be the cost of these warrants. The deferred revenue associated with these warrants was to be amortized into income based on share volume traded through the OptiMark System.

In September 2000, OptiMark announced a strategic change in its business that will allow it to focus on providing technology solutions to electronic marketplaces. As part of the change, OptiMark decided to suspend trading operations on the OptiMark System. As a result, Nasdaq management has concluded that its investment in warrants in OptiMark as well as the realization of the deferred revenue related to these warrants is impaired. Therefore, in September 2000, Nasdaq reduced its investment in warrants and related deferred revenue to zero. Nasdaq will monitor OptiMark's implementation of its new business model and assess the value of the warrants at each balance sheet date.

12. Commitments and Contingencies

In November 1997, Nasdaq entered into a \$600 million six-year agreement with WorldCom to replace the existing data network that connects the Nasdaq market facilities to market participants. The contract contains a series of market participant usage related guarantees. Nasdaq paid a deposit of \$8 million related to the agreement. Nasdaq has guaranteed WorldCom that the market participants will generate a minimum of \$300 million in usage under the contract from inception through November 2003. If \$350 million of the service is used, \$4 million of the deposit will be returned to Nasdaq. If \$400 million of usage is achieved, the full \$8 million will be returned. Cumulative billings under the contract were \$143.3 million as of December 31, 2000. As of December 31, 2000 the deposit has been fully reserved, based on projected usage under the contract. Nasdaq believes the implementation of SuperMontage will preclude Nasdaq from reaching the \$350 million usage level and receiving a refund of the deposit.

In October 2000, Nasdaq entered into a contract with OptiMark under which OptiMark was engaged to provide software development services in connection with the development of the SuperMontage system. Nasdaq will pay OptiMark for the SuperMontage development for a period not to exceed twelve months. Additionally, OptiMark will be entitled to receive incentive payments if it meets certain delivery milestones agreed to in the contract. If Nasdaq uses OptiMark's services for the full twelve months of expected development effort and OptiMark meets all of its deliverables, then Nasdaq will be required to pay up to \$14.9 million.

Nasdaq may be subject to claims arising out of the conduct of its business. Currently, there are certain legal proceedings pending against Nasdaq. Management believes, based upon the opinion of counsel, that any liabilities or settlements arising from these proceedings will not have a material effect on the financial position or results of operations of Nasdaq. Management is not aware of any unasserted claims or assessments that would have a material adverse effect on the financial position and the results of operations of Nasdaq.

13. Related Party Transactions

Related party receivables and payables are the result of various transactions between Nasdaq and its affiliates. Payables to related parties are comprised primarily of the regulation charge from NASDR, a wholly-owned subsidiary of the NASD. NASDR charges Nasdaq for costs incurred related to Nasdaq market regulation and enforcement. Support charges from the NASD to Nasdaq represent another significant component of payables to related parties. The support charge includes an allocation of a portion of the NASD's administrative expenses as well as its costs incurred to develop and maintain technology on behalf of Nasdaq. The remaining component of payables to related parties is cash disbursements funded by the NASD on behalf of Nasdaq.

Receivables from related parties are primarily attributable to costs incurred by Amex and funded by Nasdaq related to various Amex technology projects. The remaining portion of the receivable from related parties balance is related to cash disbursements funded by Nasdaq on behalf of its affiliates. Disbursements made by Nasdaq on behalf of affiliates relate mainly to office supply and utility charges where Nasdaq represents the largest portion.

Surveillance Charge from NASDR

NASDR incurs costs associated with surveillance monitoring, legal and enforcement activities related to the regulation of The Nasdaq Stock Market. These costs are charged to Nasdaq based upon the NASD management's estimated percentage of costs incurred by each NASDR department that are attributable directly to The Nasdaq Stock Market surveillance. The following table represents Nasdaq management's estimate of the costs charged by NASDR to Nasdaq:

	December 31,		
	2000	1999	1998
Compensation	\$ 32,018	\$ 32,529	\$ 29,894
Professional and contract services	27,110	20,000	16,193
Occupancy	399	1,687	1,945
Publications, supplies and postage	2,924	1,661	1,744
Computer ops. and data comm.	5,010	3,430	2,503
Depreciation	8,435	3,831	3,205
Travel, meetings and training	2,848	1,841	1,670
Other	1,106	150	192
Total	\$ 79,850	\$ 65,129	\$ 57,346

On June 28, 2000 Nasdaq entered into a Regulatory Services Agreement with NASDR (the "Regulatory Services Agreement"). Under the terms of this agreement, NASDR will provide Nasdaq regulatory services and related administrative functions necessary for NASDR's performance of such services commencing upon the effectiveness of Nasdaq's registration as a national securities exchange. Through December 31, 2000, NASDR's fees charged to Nasdaq will reflect NASDR's cost of furnishing the services. After December 31, 2000, pricing will be determined on a "cost-plus basis" for each service. The initial term of the Regulatory Services Agreement expires on June 28, 2010. Nasdaq is subject to termination fees, payable to NASDR, if it terminates its receipt of services under the agreement for convenience.

Support Charge from the NASD

The NASD provides various administrative services to Nasdaq including legal assistance, accounting and managerial services. It is the NASD's policy to charge these expenses and other operating costs to Nasdaq based upon usage percentages determined by management of the NASD and Nasdaq. Additionally, the NASD incurs certain costs related to the development and maintenance of technology for Nasdaq. Technology development costs are allocated directly to Nasdaq based upon specific projects requested by Nasdaq. Technology maintenance costs are allocated based upon Nasdaq's share of computer usage. The following table represents Nasdaq management's estimate of the composition of costs charged by the NASD to Nasdaq:

	December 31,		
	2000	1999	1998
Compensation	\$ 25,899	\$ 25,956	\$ 25,942
Professional and contract services	9,986	16,671	7,784
Occupancy	9,576	4,637	5,212
Publications, supplies and postage	1,544	2,295	2,368
Computer ops. and data comm.	1,500	5,243	4,145
Depreciation	2,894	6,514	5,335
Travel, meetings and training	1,504	2,020	1,551
Other	701	759	267
Total	\$ 53,604	\$ 64,095	\$ 52,604

On June 28, 2000 Nasdaq entered into a Separation and Common Services Agreement with the NASD (the "NASD Separation Agreement"). Under the terms of this agreement, the NASD will provide Nasdaq the same administrative, corporate and infrastructure services it currently provides. The rates and methodology to be used in determining the cost of such services will be consistent with past practices. Nasdaq intends to develop its internal capabilities in the future in order to reduce its reliance on the NASD for such services. In addition, Nasdaq will provide the NASD continued access to such Nasdaq technology as the NASD requires to satisfy its obligation to Amex under the transaction agreement between the NASD and Amex in connection with the NASD's 1998 acquisition of Amex. Nasdaq will also continue to provide all services it currently provides to Amex. Nasdaq's costs for rendering such access and services will be recoverable from the NASD. Nasdaq and the NASD are negotiating a more detailed "Master Agreement" to supersede the NASD Separation Agreement that expires December 31, 2001. If such a Master Agreement is not executed prior to January 1, 2002, the NASD Separation Agreement automatically renews for an additional 12 months.

Nasdaq Charge to the American Stock Exchange LLC ("Amex")

Nasdaq incurs technology costs on behalf of Amex related to development of new Amex systems and enhancement of existing Amex systems. Additionally, Nasdaq incurs certain operating costs such as marketing on behalf of Amex. Amounts are charged based upon specific projects requested by Amex. Amounts charged from Nasdaq to Amex are included in support costs from related parties and are summarized as follows:

	December 31,		
	2000	1999	1998
Compensation	\$ 345	\$ 600	\$ 1,128
Professional and contract services	4,389	13,090	7,334
Publications, supplies and postage	11	19	35
Other	187	326	612
Total	\$ 4,932	\$ 14,035	\$ 9,109

In the opinion of management, all methods of cost allocation described above are reasonable for the services rendered.

14. Capital Stock and Earnings Per Share

Each share of Common Stock has one vote, except that any person, other than the NASD or any other person as may be approved for such exemption by the Nasdaq Board prior to the time such person owns more than 5% of the then-outstanding shares of Common Stock, who would otherwise be entitled to exercise voting rights in respect of more than 5% of the then-outstanding shares of Common Stock will be unable to exercise voting rights for any shares in excess of 5% of the then-outstanding shares of Common Stock. In connection with Phase I of the Restructuring, the NASD sold approximately 6,415,649 warrants to purchase up to an aggregate of 25,662,596 outstanding shares of Common Stock owned by the NASD. The voting rights associated with the shares of Common Stock underlying the warrants, as well as the shares of Common Stock purchased through the valid exercise of warrants, will be governed by the voting trust agreement (the "Voting Trust Agreement") entered into by the NASD, Nasdaq and The Bank of New York, as voting trustee (the "Voting Trustee"). Initially, the holders of the warrants (each, a "Warrant Holder" and, collectively, the "Warrant Holders") will not have any voting rights with respect to the shares of Common Stock underlying such warrants. Until Nasdaq becomes registered with the Securities and Exchange Commission as a national securities exchange ("Exchange Registration"), the shares of Common Stock underlying unexercised and unexpired warrant tranches, as well as the shares of Common Stock purchased through the exercise of warrants, will be voted by the Voting Trustee at the direction of the NASD. The voting rights associated with the shares of Common Stock underlying unexercised and expired warrant tranches will revert to the NASD. However, the NASD has determined, commencing upon Exchange Registration, to vote its shares of Common Stock (other than shares underlying then outstanding warrants) in the same proportion as the other stockholders of Nasdaq. Upon Exchange Registration, the Warrant Holders will have the right to direct the Voting Trustee as to the voting of the shares of Common Stock underlying unexercised and unexpired warrant tranches until the earlier of the exercise or the expiration of such warrant tranches. The shares of Common Stock purchased upon a valid exercise of a warrant tranche prior to Exchange Registration will be released from the Voting Trust Agreement upon Exchange Registration. The shares of Common Stock purchased upon a valid exercise of a warrant tranche after Exchange Registration will not be subject to the Voting Trust Agreement.

There are 30,000,000 shares of preferred stock authorized, and none issued and outstanding.

The following table sets forth the computation of basic earnings per share.

	December 31,		
	2000	1999	1998
Numerator for basic earnings per share	\$ 23,306	\$ 86,149	\$ 34,955
Denominator for basic weighted average shares	112,090,493	100,000,000	100,000,000
Basic and diluted earnings per share:			
Before cumulative effect of change in accounting principle	\$ 1.11	\$ 0.86	\$ 0.35
Cumulative effect of change in accounting principle	(0.90)	-	-
Net income	\$ 0.21	\$ 0.86	\$ 0.35

Diluted earnings per share are the same as basic earnings per share for all periods presented, as there were no dilutive potential common shares

outstanding during the periods presented.

15. Subsequent Events (Unaudited)

Phase II Private Placement

Phase II closed on January 18, 2001 with Nasdaq selling approximately 5.0 million shares, yielding net proceeds of approximately \$63.7 million. As of October 31, 2001, the NASD owns approximately 69% of Nasdaq. On a fully-diluted basis, the NASD's ownership would be decreased to approximately 25%.

Nasdaq Europe S.A./N.V.

On March 27, 2001, Nasdaq acquired a 68.1% ownership interest in the European Association of Securities Dealers Automated Quotation S.A./N.V., a pan-European market headquartered in Brussels for approximately \$12.5 million. Nasdaq has renamed the company Nasdaq Europe S.A./N.V. ("Nasdaq Europe") and plans to restructure it into a globally linked, pan-European market.

Nasdaq's acquisition has been accounted for under the purchase method of accounting, resulting in the recording of goodwill of approximately \$4.9 million.

Hellman & Friedman

On May 3, 2001, Nasdaq issued and sold \$240.0 million in aggregate principal amount of its 4% convertible subordinated debentures due 2006 (the "Subordinated Debentures") to Hellman & Friedman Capital Partners IV, L.P. and certain of its affiliated limited partnerships (collectively, "Hellman & Friedman"). The annual 4% coupon will be payable in arrears in cash and the Subordinated Debentures will be convertible at any time into an aggregate of 12.0 million shares of Common Stock at \$20.00 per share, subject to adjustment, in general, for any stock split, dividend, combination, recapitalization or other similar event.

On an as converted basis, Hellman & Friedman owns an approximate 9.7% equity interest in Nasdaq. Nasdaq has agreed to use its best efforts to seek stockholder approval of a charter amendment that would provide for voting debt in order to permit Hellman & Friedman to vote on an as-converted basis on all matters on which common stockholders have the right to vote, subject to the current 5% voting limitation in Nasdaq's Restated Certificate of Incorporation (the "Certificate of Incorporation"). Nasdaq has granted Hellman & Friedman certain registration rights with respect to the shares of Common Stock underlying the Subordinated Debentures. Additionally, Hellman & Friedman is permitted to designate one person reasonably acceptable to Nasdaq for nomination as a director of Nasdaq for so long as Hellman & Friedman owns Subordinated Debentures and/or shares of Common Stock issued upon conversion representing at least 50% of the shares of Common Stock issuable upon conversion of the Subordinated Debentures initially purchased.

On May 3, 2001, Nasdaq used the net proceeds from the sale of the Subordinated Debentures to purchase 18,461,538 shares of Common Stock from the NASD for \$13.00 per share or an aggregate purchase price of \$239,999,994.

LIFFE

On June 1, 2001, Nasdaq and the London International Financial Futures and Options Exchange ("LIFFE") formed Nasdaq LIFFE, LLC, a new U.S. joint venture company to list and trade single stock futures. The products of this joint venture are expected to be traded through a modified version of the LIFFE CONNECT(TM) electronic system. Nasdaq has committed up to \$15 million plus the rights to use certain trademarks in this venture. On August 21, 2001, the Commodity Futures Trading Commission approved Nasdaq LIFFE as a futures market and self-regulatory organization.

Nasdaq Europe Planning Company Limited

Nasdaq Europe Planning Company Limited's proposed joint venture did not occur due to a strategic decision to employ a strategy for European expansion that did not include this venture, i.e., the acquisition of a controlling interest of the European Association of Securities Dealers Automated Quotation S.A./N.V. in March 2001. As a result, Nasdaq agreed to repurchase the ownership interests of the three other shareholders in Nasdaq Europe Planning Company Limited for \$10 million each, thereby unwinding the joint venture. Repurchases from two of the shareholders, for a total of \$20 million, were completed in the first quarter of 2001. The repurchase from the third shareholder is expected to occur by the end of 2001. As of September 30, 2001, Nasdaq owned approximately 75% of the interests in Nasdaq Europe Planning Company Limited.

Stock-Based Awards to Officers and Employees

As of February 14, 2001 Nasdaq granted approximately 9.6 million stock options and 534,850 shares of restricted stock to certain employees and officers pursuant to its Equity Incentive Plan. Under the plan, Nasdaq grants stock options with an exercise price equal to the fair market value of the stock at the date of the grant. Nasdaq accounts for stock option grants in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," ("APB No. 25") and accordingly, recognizes no compensation expense related to such grants.

Restricted stock awards are awarded in the name of the employee or officer at fair value at the date of the grant. The awards contain restrictions on sales and transfers, and are subject to a five-year vesting period. The

534,850 shares of restricted stock were awarded at a fair value of \$13.00 per share, and are being expensed over the vesting period.

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THE NASDAQ STOCK MARKET, INC.
Condensed Consolidated Balance Sheets
(In thousands, except share amounts)

	September 30, 2001	December 31, 2000
	(Unaudited)	
Assets:		
Current assets:		
Cash and cash equivalents	\$ 329,099	\$ 262,257
Investments:		
Available-for-sale, at fair value	229,498	232,090
Held-to-maturity, at amortized cost	4,596	21,967
Receivables, net	190,043	172,660
Receivables from related parties	17,335	8,250
Deferred tax asset	46,236	32,367
Other current assets	12,921	14,869
Total current assets	829,728	744,460
Investments:		
Held-to-maturity, at amortized cost	23,938	6,612
Property and equipment:		
Land, buildings and improvements	91,182	80,727
Data processing equipment and software	425,486	370,066
Furniture, equipment and leasehold improvements	178,888	134,638
Less accumulated depreciation and amortization	(315,147)	(252,380)
Total property and equipment, net	380,409	333,051
Non-current deferred tax asset	54,610	61,257
Other assets	29,770	25,753
Total assets	\$ 1,318,455	\$ 1,171,133

See accompanying notes to unaudited condensed consolidated financial statements.

THE NASDAQ STOCK MARKET, INC.
Condensed Consolidated Balance Sheets - (continued)
(In thousands, except share amounts)

	September 30, 2001	December 31, 2000
	(Unaudited)	
Liabilities:		
Current liabilities:		
Accounts payable and accrued expenses	\$ 103,742	\$ 117,867
Accrued personnel costs	37,562	37,273
Deferred revenue	85,427	66,178
Other accrued liabilities	32,031	35,374
Due to banks	4,105	13,876
Payables to related parties	27,394	19,158
Total current liabilities	290,261	289,726
Long-term debt:		
Senior notes	46,500	25,000
Subordinated indebtedness	240,000	-
Accrued pension costs	16,558	10,390
Non-current deferred tax liability	36,246	32,116
Non-current deferred revenue	122,808	138,166
Other liabilities	35,161	15,033
Total long-term liabilities	497,273	220,705
Total liabilities	787,534	510,431

Minority interests	4,447	15,543
Stockholders' equity		
Common stock, \$.01 par value, 300,000,000 authorized, shares issued: 128,969,119 in 2001 and 123,663,746 in 2000; shares outstanding: 110,507,581 in 2001 and 123,663,746 in 2000	1,290	1,237
Additional paid-in capital	338,023	273,387
Common stock in treasury, at cost: 18,461,538 shares in 2001 and 0 shares in 2000	(240,000)	-
Unrealized gains on available-for-sale investments, net of tax	1,936	321
Foreign currency translation	(2,742)	(2,213)
Deferred stock compensation	(4,048)	-
Common stock issuable	5,868	-
Retained earnings	426,147	372,427
	-----	-----
Total stockholders' equity	526,474	645,159
	-----	-----
Total liabilities, minority interests and stockholders' equity	\$ 1,318,455	\$ 1,171,133
	=====	=====

See accompanying notes to unaudited condensed consolidated financial statements.

THE NASDAQ STOCK MARKET, INC.
Condensed Consolidated Statements of Income
(Unaudited)
(In thousands, except per share amounts)

	Nine months ended	
	September 30, 2001	September 30, 2000
	-----	-----
Revenues:		
Transaction services	\$ 305,772	\$ 291,231
Market information services	176,925	200,796
Corporate Client Group services	116,463	109,566
Other	42,621	19,646
	-----	-----
Total revenues	641,781	621,239
	-----	-----
Expenses:		
Compensation and benefits	131,131	91,929
Marketing and advertising	17,597	32,034
Depreciation and amortization	65,558	45,614
Professional and contract services	54,424	36,877
Computer operations and data communications	131,875	98,545
Bad debt expense	14,460	3,369
Occupancy	19,866	11,462
Disaster related	843	-
Other	48,325	22,793
	-----	-----
Total direct expenses	484,079	342,623
	-----	-----
Support costs from related parties, net	76,121	90,197
	-----	-----
Total expenses	560,200	432,820
	-----	-----
Net operating income	81,581	188,419
Interest income	16,649	10,924
Interest expense	(5,447)	(1,677)
Minority interests	5,234	-
Provision for income taxes	(44,297)	(83,988)
	-----	-----
Net income before cumulative effect of change in accounting principle	53,720	113,678
	=====	=====
Cumulative effect of change in accounting principle, net of taxes of \$67,956	\$ -	\$ (101,090)
	=====	=====
Net income	\$ 53,720	\$ 12,588
	=====	=====
Basic earnings per share before cumulative effect of change in accounting principle	\$ 0.45	\$ 1.05
	=====	=====
Basic loss per share for change in accounting principle	\$ -	\$ (0.93)
	=====	=====
Diluted earnings per share before cumulative effect of change in accounting principle	\$ 0.44	\$ 1.05
	=====	=====
Diluted loss per share for change in accounting principle	\$ -	\$ (0.93)
	=====	=====
Basic earnings per common share	\$ 0.45	\$ 0.12
	=====	=====
Diluted earnings per common share	\$ 0.44	\$ 0.12
	=====	=====

See accompanying notes to unaudited condensed consolidated financial statements.

THE NASDAQ STOCK MARKET, INC.
Condensed Consolidated Statements of Cash Flows
(Unaudited)
(In thousands)

	Nine months ended	
	September 30, 2001	September 30, 2000
Cash flow from operating activities		
Cash received from customers	\$ 628,955	\$ 676,757
Cash paid to suppliers and employees	(456,796)	(276,918)
Cash paid to related parties, net	(76,970)	(82,236)
Income taxes paid	(26,520)	(65,889)
Interest received, net	11,202	9,247
Other	15,967	(63,122)
Cash provided by operating activities	95,838	197,839
Cash flow from investing activities		
Proceeds from redemptions of available-for-sale investments	280,007	64,096
Purchases of available-for-sale investments	(276,515)	(150,606)
Proceeds from maturities of held-to-maturity investments	20,865	6,200
Purchases of held-to-maturity investments	(20,820)	(6,333)
Acquisition, net of cash acquired	558	(16,979)
Proceeds from sale of stock in Nasdaq Europe	9,564	-
Proceeds from sales of property and equipment	13,426	11,831
Purchases of property and equipment	(99,541)	(100,715)
Cash used in investing activities	(72,456)	(192,506)
Cash flow from financing activities		
Decrease in due to banks	(9,771)	(2,071)
Proceeds from Phase I private placement offering	-	254,142
Contributions from minority stockholders	-	30,000
Net proceeds from Phase II private placement	63,688	-
Repayment of minority interests in Nasdaq Europe Planning Company Limited	(20,000)	-
Payments for treasury stock purchases	(240,000)	-
Increase in long-term debt	249,543	-
Cash provided by financing activities	43,460	282,071
Increase in cash and cash equivalents	66,842	287,404
Cash and cash equivalents at beginning of period	262,257	10,598
Cash and cash equivalents at end of period	\$ 329,099	\$ 298,002

See accompanying notes to unaudited condensed consolidated financial statements.

THE NASDAQ STOCK MARKET, INC.
Condensed Consolidated Statements of Cash Flows - (continued)
(Unaudited)
(In thousands)

	Nine months ended	
	September 30, 2001	September 30, 2000
Reconciliation of net income to cash provided by operating activities		
Net income	\$ 53,720	\$ 12,588
Non-cash items included in net income		
Cumulative effect of change in accounting principle, net	-	101,090
Depreciation and amortization	65,558	45,614
Stock-based compensation	5,252	-
Minority interests	(5,234)	-
Other non-cash adjustments included in net income	5,178	-

Net change in:		
Receivables, net	(16,523)	(63,703)
Receivables from related parties	(9,085)	6,241
Deferred tax asset	(7,841)	(88,602)
Other current assets	3,315	5,106
Other assets	(3,808)	(1,130)
Accounts payable and accrued expenses	(28,296)	(4,878)
Accrued personnel costs	(138)	(5,157)
Deferred revenue	3,697	119,221
Other accrued liabilities	(3,484)	44,889
Payables to related parties	8,236	1,723
Accrued pension costs	6,168	3,335
Deferred tax liability	4,158	10,040
Other liabilities	14,965	11,462
	-----	-----
Cash provided by operating activities	\$ 95,838	\$ 197,839
	=====	=====

See accompanying notes to unaudited condensed consolidated financial statements.

THE NASDAQ STOCK MARKET, INC.
Notes to Unaudited Condensed Consolidated Financial Statements

1. Basis of Presentation

The Nasdaq Stock Market, Inc. ("Nasdaq") is the parent company of Nasdaq Global Holdings ("Nasdaq Global"); Quadsan Enterprises, Inc.; Nasdaq Tools, Inc. ("Nasdaq Tools"); Nasdaq Financial Products Services, Inc.; Nasdaq International Market Initiatives, Inc.; and Nasdaq Canada, Inc.; collectively referred to as Nasdaq. These entities are wholly-owned by Nasdaq. Nasdaq is a subsidiary of the National Association of Securities Dealers, Inc. (the "NASD").

Nasdaq operates in one segment as defined in the Statement of Financial Accounting Standards ("SFAS") No. 131 "Disclosures About Segments of an Enterprise and Related Information." Nasdaq uses a multiple market maker system to operate an electronic, screen-based equity market. Nasdaq's principal business products are transaction services, market information services, and Corporate Client Group services (formerly issuer services). The majority of this business is transacted with companies listed on The Nasdaq Stock Market(R), market data vendors, and firms in the broker-dealer industry within the United States.

All material intercompany accounts and transactions have been eliminated in consolidation. Nasdaq's financial statements have been prepared in accordance with the rules and regulations of the U.S. Securities and Exchange Commission (the "SEC") with respect to the Form 10-Q and reflect all normal recurring adjustments which are, in the opinion of management, necessary for a fair presentation of the results for the interim periods presented. Pursuant to such rules and regulations, certain footnote disclosures, which are normally required under generally accepted accounting principles, have been omitted. It is recommended that these financial statements be read in conjunction with the Consolidated Financial Statements included in Nasdaq's Registration Statement filed on Form 10, as amended, for the year ended December 31, 2000.

The nature of Nasdaq's business is such that the results of any interim period may vary significantly from quarter to quarter and may not be indicative of the results to be expected for the fiscal year. Certain prior period amounts reflect reclassifications to conform to the current period's presentation.

2. Significant Transactions

The NASD's plan to broaden the ownership in Nasdaq was executed through a two-phase private placement (1) by Nasdaq of newly-issued shares of Nasdaq's common stock, par value \$0.01 per share (the "Common Stock"), and (2) by the NASD of shares of outstanding Common Stock and warrants to purchase outstanding shares of Common Stock owned by the NASD. The second phase of the private placement closed on January 18, 2001 with Nasdaq selling approximately 5.0 million shares, yielding net proceeds of approximately \$63.7 million.

In June 2001, Nasdaq Europe S.A./N.V. ("Nasdaq Europe"), a pan-European stock market headquartered in Brussels, sold approximately an 11.0% stake to a group of eight major U.S. and European securities firms. The sale yielded net proceeds of approximately \$9.6 million and reduced Nasdaq's ownership in Nasdaq Europe to 60.5% (52.7% after potential dilution of outstanding warrants). As a result of this transaction, Nasdaq adjusted the carrying value of its investment in Nasdaq Europe by \$7.4 million, through stockholders' equity, to reflect its adjusted share of the book value of Nasdaq Europe.

Nasdaq Europe Planning Company Limited's proposed joint venture did not occur due to a strategic decision to employ a strategy for European expansion that did not include this venture, i.e., the acquisition of a controlling interest of the European Association of Securities Dealers Automated Quotation S.A./N.V. in March 2001. As a result, Nasdaq agreed to repurchase the ownership interests of the three other shareholders in Nasdaq Europe Planning Company Limited for \$10 million each, thereby unwinding the joint venture. Repurchases from two of the shareholders, for a total of \$20 million, were completed in the first quarter of 2001. The

repurchase from the third shareholder is expected to occur by the end of 2001. As of June 30, 2001, Nasdaq owned approximately 75% of the interests in Nasdaq Europe Planning Company Limited.

3. Change in Accounting Principle

On August 17, 2001, Nasdaq concluded discussions with the SEC with respect to the implementation in its financial statements of Staff Accounting Bulletin 101, "Revenue Recognition in Financial Statements" ("SAB 101"), which became effective for SEC reporting companies in the fourth quarter of 2000. Nasdaq became a SEC public reporting company on June 29, 2001, the effective date of its Registration Statement on Form 10. As a result of the discussions with the SEC, Nasdaq changed its method of accounting for revenue recognition for certain components of its Corporate Client Group services revenues.

In accordance with generally accepted accounting principles, as SAB 101 was adopted effective the fourth quarter of 2000, the change in accounting principle has been applied as of January 1, 2000. In accordance with applicable accounting guidance prior to SAB 101, Nasdaq recognized revenue for issuer initial listing fees and listing of additional shares ("LAS") fees in the month the listing occurred or in the period additional shares were issued, respectively. Nasdaq now recognizes revenue related to initial listing fees and LAS fees on a straight line basis over estimated service periods, which are six and four years, respectively.

As a result of this change in accounting principle, pro forma net income for the nine months ended September 30, 2000, excluding the cumulative effect of the change in accounting principle on prior years' results, decreased \$21.2 million (\$0.20 per share) to \$113.7 million (\$1.05 per share). In addition, Nasdaq recognized a one-time cumulative effect of a change in accounting principle in the first quarter of 2000. This cumulative effect of a change in accounting principle decreased net income in the first nine months of 2000 by \$101.1 million (\$0.93 per share), resulting in net income of \$12.6 million (\$0.12 per share). The adjustment to first quarter 2000 net income for the cumulative change to prior years' results consists of the following:

(amounts in millions)	
Deferred initial listing fees	\$108.5
Deferred LAS fees	60.6

Total deferred fees	169.1
Deferred income tax benefit	(68.0)

Cumulative effect of change in accounting principle	\$101.1
	=====

For the nine months ended September 30, 2001 and 2000, Nasdaq recognized \$34.9 million and \$42.8 million in revenue, respectively, that was included in the cumulative effect adjustment as of January 1, 2000. This revenue contributed \$20.9 million (after income taxes of \$14.0 million) and \$25.6 million (after income taxes of \$17.2 million) to net income for the nine months ended September 30, 2001 and 2000, respectively.

4. Deferred Revenue

Nasdaq's deferred revenue as of September 30, 2001 related to Corporate Client Group services fees will be recognized in the following years:

(amounts in thousands)				
Fiscal year ended:	Initial	LAS	Annual	Total
	-----	-----	-----	-----
2001	\$ 8,671	\$ 8,720	\$ 20,989	\$ 38,380
2002	31,438	29,731	-	61,169
2003	26,798	22,833	-	49,631
2004	22,072	12,281	-	34,353
2005 and thereafter	21,944	2,758	-	24,702
	-----	-----	-----	-----
	\$ 110,923	\$ 76,323	\$ 20,989	\$ 208,235
	=====	=====	=====	=====

Nasdaq's deferred revenue for the nine months ended September 30, 2001 is reflected in the following tables. The additions reflect Corporate Client Group services fees charged during the quarter while the amortization reflects the Corporate Client Group services fee revenues recognized during the period based on the accounting methodology described in Note 3 above.

(amounts in thousands)				
	Initial	LAS	Annual	Total
	-----	-----	-----	-----
Balance at January 1, 2001	\$ 127,693	\$ 76,651	\$ -	\$ 204,344
Additions	10,195	26,453	83,706	120,354
Amortization	(26,965)	(26,781)	(62,717)	(116,463)
	-----	-----	-----	-----
Balance at September 30, 2001	\$ 110,923	\$ 76,323	\$ 20,989	\$ 208,235
	=====	=====	=====	=====

5. Disaster Related Expenses

As a result of the terrorist attacks on September 11, 2001, Nasdaq incurred additional costs of \$0.84 million (\$0.50 million after tax) in the third quarter. These costs consist primarily of, but will not be limited to, costs related to the efforts to restore services to market participants; the testing of trading systems; and the required reconfiguring of technology, telecommunications and alternative office facilities due to the temporary relocation of employees. Nasdaq is in the process of determining the total loss of revenues and additional expenses incurred as well as any applicable insurance recoveries. Additional expenses and recoveries will be recorded in future periods.

6. Long-term Debt

During the nine months ended September 30, 2001, Nasdaq's consolidated long-term debt increased by \$261.5 million to \$286.5 million. The increase reflects the issuance of \$240.0 million of 4% convertible subordinated debentures due 2006 (the "Subordinated Debentures") to Hellman & Friedman Capital Partners IV, L.P. and certain of its affiliated limited partnerships (collectively, "Hellman & Friedman") on May 3, 2001. The annual 4% coupon will be payable in arrears in cash and the Subordinated Debentures will be convertible at any time into an aggregate of 12,000,000 shares of Common Stock at \$20.00 per share, subject to adjustment, in general, for any stock split, dividend, combination, recapitalization or other similar event.

As of September 30, 2001, on an as converted basis, Hellman & Friedman owns an approximate 9.8% equity interest in Nasdaq. Nasdaq has agreed to use its best efforts to seek stockholder approval of a charter amendment that would provide for voting debt in order to permit the holders of Subordinated Debentures to vote on an as-converted basis on all matters on which common stockholders have the right to vote, subject to the current 5% voting limitation in Nasdaq's Restated Certificate of Incorporation. Nasdaq has granted Hellman & Friedman certain registration rights with respect to the shares of Common Stock underlying the Subordinated Debentures. In addition, Hellman & Friedman is permitted to designate one person reasonably acceptable to Nasdaq for nomination as a director of Nasdaq for so long as Hellman & Friedman owns Subordinated Debentures and/or shares of Common Stock issued upon conversion representing at least 50% of the shares of Common Stock issuable upon conversion of the Subordinated Debentures initially purchased. Effective May 3, 2001, F. Warren Hellman was elected to Nasdaq's Board of Directors pursuant to the foregoing provision.

The increase also reflects \$21.5 million (Euro 23.4 million) of senior debt of Nasdaq Europe S.A./N.V. Of this total, \$9.7 million (Euro 10.6 million) matures in 2003 with the remaining \$11.8 million (Euro 12.8 million) maturing in 2004. The debt is Euro-denominated with \$3.7 million (Euro 4.0 million) containing contractual fixed interest rates and \$17.8 million (Euro 19.4 million) containing interest rates based on a fixed premium above London Interbank Offered Rates.

7. Commitments and Contingencies

In October 2000, Nasdaq entered into a contract with OptiMark, Inc. under which OptiMark was engaged to provide software development services in connection with the development of the SuperMontage system. In May 2001, Nasdaq entered into a revised contract with OptiMark, under which Nasdaq will make guaranteed payments of \$0.7 million per month through December 31, 2001 related to the design of the system.

Nasdaq may be subject to claims arising out of the conduct of its business. Currently, there are certain legal proceedings pending against Nasdaq. Nasdaq believes, based upon the opinion of counsel, that any liabilities or settlements arising from these proceedings will not have a material effect on the financial position or results of operations of Nasdaq. Management is not aware of any unasserted claims or assessments that would have a material adverse effect on the financial position and the results of operations of Nasdaq.

8. Comprehensive Income

Comprehensive income is calculated in accordance with Statement of Financial Accounting Standards ("SFAS") No. 130, "Reporting Comprehensive Income." Comprehensive income combines net income and certain items that directly affect stockholders' equity, such as foreign currency translation adjustments. The components of comprehensive income for the nine months ended September 30, 2001 and 2000 were as follows:

(amounts in thousands)	Nine months ended September 30,	
	2001	2000
Net income	\$ 53,720	\$ 12,588
Unrealized gains on available-for-sale investments	1,615	1,379
Foreign currency translation adjustment	(529)	-
Total comprehensive income	\$ 54,806	\$ 13,967

9. Capital Stock and Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share.

(amounts in thousands, except share and per share data)	Nine months ended	
	September 30, 2001	September 30, 2000
Numerator:		
Net income before cumulative effect of change in accounting principle	\$ 53,720	\$ 113,678
Numerator for basic earnings per share before cumulative effect of change in accounting principle	53,720	113,678
Cumulative effect of change in accounting principle	-	(101,090)
Numerator for basic earnings per share for change in accounting principle	-	(101,090)
Net income	53,720	12,588
Numerator for basic earnings per share	\$ 53,720	\$ 12,588
Interest impact of convertible debt, net of tax	2,162	-
Numerator for diluted earnings per share	\$ 55,882	\$ 12,588
Denominator:		
Weighted average shares	119,314,785	108,204,583
Denominator for basic earnings per share	119,314,785	108,204,583
Effect of dilutive securities:		
Employee stock options	-	-
Employee restricted stock	90,336	-
Convertible debt assumed converted into Common Stock	6,593,407	-
Denominator for diluted earnings per share	125,998,528	108,204,583
Basic earnings per share before cumulative effect of change in accounting principle	\$ 0.45	\$ 1.05
Diluted earnings per share before cumulative effect of change in accounting principle	\$ 0.44	\$ 1.05
Basic earnings (loss) per share for change in accounting principle	\$ -	\$ (0.93)
Diluted earnings (loss) per share for change in accounting principle	\$ -	\$ (0.93)
Basic earnings per share	\$ 0.45	\$ 0.12
Diluted earnings per share	\$ 0.44	\$ 0.12

For the nine month period ended September 30, 2001, the Subordinated Debentures were convertible into 12.0 million shares of Common Stock at a conversion price of \$20.00 per share, subject to adjustment, in general, for any stock split, dividend, combination, recapitalization or other similar event. For purposes of calculating diluted earnings per share for the nine month period ended September 30, 2001, the Subordinated Debentures were assumed to be converted into shares of Common Stock, on a weighted average basis, since basic earnings per share exceeded interest (net of tax) per share obtainable upon conversion.

The option awards made under The Nasdaq Stock Market, Inc. Equity Incentive Plan during the first nine months of 2001 were not included in computing diluted earnings per share as their effect was not dilutive.

EXHIBIT INDEX

Exhibit Number	Description
3.1	Restated Certificate of Incorporation of The Nasdaq Stock Market, Inc.(+)
3.2	By-Laws of The Nasdaq Stock Market, Inc.
4.1	Form of Common Stock certificate.(+)
7A	Qualitative Disclosure about market risk (incorporated herein by reference to "Item 2. Financial Information" of this Form 10).

- 9.1 Voting Trust Agreement dated June 28, 2000, among The Nasdaq Stock Market, Inc., the National Association of Securities Dealers, Inc. and The Bank of New York.(+)
- 9.2 First Amendment to the Voting Trust Agreement, dated as of January 18, 2001, among The Nasdaq Stock Market, Inc., the National Association of Securities Dealers, Inc. and The Bank of New York.(+)
- 10.1 Network Service Agreement, dated November 19, 1997, between MCI Telecommunications Corporation and The Nasdaq Stock Market, Inc.*(+)
- 10.2 Consolidated Agreement, between Unisys Corporation and The Nasdaq Stock Market, Inc.*(+)
- 10.3 Network User License Agreement, dated November 30, 1993, between Oracle Corporation and The Nasdaq Stock Market, Inc.*(+)
- 10.4 Software License and Services Agreement, dated November 31, 1993, between Oracle Corporation and The Nasdaq Stock Market, Inc.*(+)
- 10.5 Regulatory Services Agreement, dated June 28, 2000, between NASD Regulation, Inc. and The Nasdaq Stock Market, Inc.*(+)
- 10.6 Separation and Common Services Agreement, dated as of June 28, 2000, between the National Association of Securities Dealers, Inc. and The Nasdaq Stock Market, Inc.(+)
- 10.7 The Nasdaq Stock Market, Inc. 2000 Employee Stock Purchase Plan.(+)
- 10.8 The Nasdaq Stock Market, Inc. Equity Incentive Plan.(+)
- 10.9 Securities Purchase Agreement, dated as of March 23, 2001, among The Nasdaq Stock Market, Inc., Hellman & Friedman Capital Partners IV, L.P. and the other purchasers listed in the signature pages thereto.(+)
- 10.9.1 Securityholders Agreement, dated as of May 3, 2001, among The Nasdaq Stock Market, Inc., Hellman & Friedman Capital Partners IV, L.P., and the other securityholders listed on the signature pages thereto.(^)
- 10.10 Purchase and Sale Agreement, dated March 23, 2001, by and between the National Association of Securities Dealers, Inc. and The Nasdaq Stock Market, Inc.(+)
- 10.11 Employment Agreement between the National Association of Securities Dealers, Inc. and Frank G. Zarb effective on February 24, 1997.(+)
- 10.12 Instrument of Amendment, dated March 18, 1998, to Employment Agreement between National Association of Securities Dealers, Inc. and Frank G. Zarb, effective on February 24, 1997.(+)
- 10.13 Instrument of Amendment, dated as of August 20, 1999, to Employment Agreement between National Association of Securities Dealers, Inc. and Frank G. Zarb, effective on February 24, 1997, as amended effective March 18, 1998.(+)
- 10.14 Instrument of Amendment, dated March 30, 2000, to Employment Agreement between National Association of Securities Dealers, Inc. and Frank G. Zarb, effective on February 24, 1997, as amended effective March 18, 1998, and subsequently amended in August, 1999.(+)
- 10.15 Instrument of Amendment, effective as of July 27, 2000, to Employment Agreement between National Association of Securities Dealers, Inc. and Frank G. Zarb, effective on February 24, 1997, as amended effective March 18, 1998, and subsequently amended in May, 1999, and subsequently amended as of August 30, 2000.(+)
- 10.16 Instrument of Amendment, effective as of November 1, 2000, to Employment Agreement between National Association of Securities Dealers, Inc. and Frank G. Zarb, effective on February 24, 1997, as amended effective March 18, 1998, and subsequently amended as of August, 1999, and subsequently amended on March 30, 2000, and as of July 27, 2000.(+)
- 10.17 Instrument of Amendment, effective as of April 25, 2001, to Employment Agreement between National Association of Securities Dealers, Inc. and Frank G. Zarb, effective on February 24, 1997, as subsequently amended effective March 18, 1998, August 20, 1999, March 30, 2000, July 27, 2000 and November 1, 2000.(+)
- 10.18 Employment Agreement by and between The Nasdaq Stock Market, Inc. and J. Patrick Campbell, effective as of December 29, 2000.(+)
- 10.18.1 Letter Agreement, dated July 22, 2001, among Frank G. Zarb, the National Association of Securities Dealers, Inc. and The Nasdaq Stock Market, Inc.<-)
- 10.19 Employment Agreement by The Nasdaq Stock Market, Inc. and John L. Hilley, effective as of December 29, 2000.(+)
- 10.20 Employment Agreement by and between The Nasdaq Stock Market, Inc. and Richard G. Ketchum, effective as of December 29, 2000.(+)

- 10.21 Employment Agreement by and between The Nasdaq Stock Market, Inc. and Hardwick Simmons, dated as of January 31, 2001.(+)
- 10.22 Employment Letter, dated May 31, 1996, from the National Association of Securities Dealers, Inc. to Alfred R. Berkeley, III.
- 11 Statement regarding computation of per share earnings (incorporated herein by reference to "Item 2. Financial Information" of this Form 10).
- 12 Computations of ratios (not applicable).
- 21.1 List of all subsidiaries.
- * Confidential treatment has been requested from the U.S. Securities and Exchange Commission for certain portions of this exhibit.
- (+) Previously filed with The Nasdaq Stock Market, Inc.'s Registration Statement on Form 10 (file number 000-32651) filed on April 30, 2001.
- (^) Previously filed with The Nasdaq Stock Market, Inc.'s Amendment No. 1 to Registration Statement on Form 10 (file number 000-32651) filed on May 14, 2001.
- (<-) Previously filed with The Nasdaq Stock Market, Inc.'s Amendment No. 4 to Registration Statement on Form 10 (file number 000-32651) filed on August 31, 2001.

BY-LAWS OF THE NASDAQ STOCK MARKET, INC.

ARTICLE I

DEFINITIONS

When used in these By-Laws, unless the context otherwise requires, the term:

(a) "Act" means the Securities Exchange Act of 1934, as amended;

(b) "Board" means the Board of Directors of Nasdaq;

(c) "broker" shall have the same meaning as in Section 3(a)(4) of the Act;

(d) "Commission" means the Securities and Exchange Commission;

(e) "day" means calendar day;

(f) "dealer" shall have the same meaning as in Section 3(a)(5) of the Act;

(g) "Delaware law" means the General Corporation Law of the State of Delaware;

(h) "Delegation Plan" means the "Plan of Allocation and Delegation of Functions by NASD to Subsidiaries" as approved by the Commission, and as amended from time to time;

(i) "Director" means a member of the Board;

(j) "Industry Director" or "Industry member" means a Director (excluding any two officers of Nasdaq, selected at the sole discretion of the Board, amongst those officers who may be serving as Directors (the "Staff Directors") or Nasdaq Listing and Hearing Review Council or committee member who (1) is or has served in the prior three years as an officer, director, or employee of a broker or dealer, excluding an outside director or a director not engaged in the day-to-day management of a broker or dealer; (2) is an officer, director (excluding an outside director), or employee of an entity that owns more than ten percent of the equity of a broker or dealer, and the broker or dealer accounts for more than five percent of the gross revenues received by the consolidated entity; (3) owns more than five percent of the equity securities of any broker or dealer, whose investments in brokers or dealers exceed ten percent of his or her net worth, or whose ownership interest otherwise permits him or her to be engaged in the day-to-day management of a broker or dealer; (4) provides professional services to brokers or dealers, and such services constitute 20 percent or more of the professional revenues received by the Director or member or 20 percent or more of the gross revenues received by the Director's or member's firm or partnership; (5) provides professional services to a director, officer, or employee of a broker, dealer, or corporation that owns 50 percent or more of the voting stock of a broker or dealer, and such services relate to the director's, officer's, or employee's professional capacity and constitute 20 percent or more of the professional revenues received by the Director or member or 20 percent or more of the gross revenues received by the Director's or member's firm or partnership; or (6) has a consulting or employment relationship with or provides professional services to the NASD, NASD Regulation, Nasdaq, or Amex (and any predecessor) or has had any such relationship or provided any such services at any time within the prior three years;

(k) "NASD" means the National Association of Securities Dealers, Inc.;

(l) "Nasdaq" means The Nasdaq Stock Market, Inc.;

(m) "Nasdaq Listing and Hearing Review Council" means a body appointed by the Board pursuant to Article V of these By-Laws;

(n) "NASD Board" means the NASD Board of Governors;

(o) "NASD Regulation" means NASD Regulation, Inc.;

(p) "Nominating Committee" means the Nominating Committee appointed pursuant to these By-Laws;

(q) "Non-Industry Director" or "Non-Industry member" means a Director (excluding the Staff Directors) or Nasdaq Listing and Hearing Review Council or committee member who is (1) a Public Director or Public member; (2) an officer or employee of an issuer of securities listed on Nasdaq, or traded in the over-the-counter market; or (3) any other individual who would not be an Industry Director or Industry member;

(r) "person associated with a member" or "associated person of a member" means: (1) a natural person who is registered or has applied for registration under the Rules of the Association; or (2) a sole proprietor, partner, officer, director, or branch manager of a member, or other natural person occupying a similar status or performing similar functions, or a natural person engaged in the investment banking or securities business who is directly or indirectly controlling or controlled by a member, whether or not any such person is registered or exempt from registration with the NASD under these By-Laws or the Rules of the Association; and (3) for purposes of Rule 8210, any other person listed in Schedule A of Form BD of a member.

(s) "Public Director" or "Public member" means a Director or

Nasdaq Listing and Hearing Review Council or committee member who has no material business relationship with a broker or dealer or the NASD, NASD Regulation, or Nasdaq;

(t) "Rules of the Association" or "Rules" means the numbered rules set forth in the NASD Manual beginning with the Rule 0100 Series, as adopted by the NASD Board pursuant to the NASD By-Laws, as hereafter amended or supplemented;

(u) "Amex" means American Stock Exchange LLC.

ARTICLE II OFFICES

Location

Sec. 2.1 The address of the registered office of Nasdaq in the State of Delaware and the name of the registered agent at such address shall be: The Corporation Trust Company, 1209 Orange Street, Wilmington, Delaware 19801. Nasdaq also may have offices at such other places both within and without the State of Delaware as the Board may from time to time designate or the business of Nasdaq may require.

Change of Location

Sec. 2.2 In the manner permitted by law, the Board or the registered agent may change the address of Nasdaq's registered office in the State of Delaware and the Board may make, revoke, or change the designation of the registered agent.

ARTICLE III

MEETINGS OF STOCKHOLDERS

Annual Meetings of Stockholders

Sec. 3.1 (a) Nominations of persons for election to the Board and the proposal of business to be considered by the stockholders may be made at an annual meeting of stockholders only (i) pursuant to Nasdaq's notice of meeting (or any supplement thereto), (ii) by or at the direction of the Board or the Nominating Committee or (iii) by any stockholder of Nasdaq who was a stockholder of record of Nasdaq at the time the notice provided for in this Section 3.1 is delivered to the Secretary of Nasdaq, who is entitled to vote at the meeting and who complies with the notice procedures set forth in this Section 3.1.

(b) For nominations or other business to be properly brought before an annual meeting by a stockholder pursuant to Section 3.1(a)(iii), the stockholder must have given timely notice thereof in writing to the Secretary of Nasdaq and any such proposed business other than the nominations of persons for election to the Board must constitute a proper matter for stockholder action. To be timely, a stockholder's notice shall be delivered to the Secretary at the principal executive offices of Nasdaq not later than the close of business on the ninetieth day nor earlier than the close of business on the one hundred twentieth day prior to the first anniversary of the preceding year's annual meeting (provided, however, that in the event that the date of the annual meeting is more than thirty days before or more than seventy days after such anniversary date, notice by the stockholder must be so delivered not earlier than the close of business on the one hundred twentieth day prior to such annual meeting and not later than the close of business on the later of the ninetieth day prior to such annual meeting or the tenth day following the day on which public announcement of the date of such meeting is first made by Nasdaq). For purposes of the first annual meeting of stockholders of Nasdaq held after 2000, the first anniversary of the 2000 annual meeting of stockholders shall be deemed to be May 15, 2001. In no event shall the public announcement of an adjournment or postponement of an annual meeting commence a new time period (or extend any time period) for the giving of a stockholder's notice as described above. Such stockholder's notice shall set forth: (i) as to each person whom the stockholder proposes to nominate for election as a director all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors in an election contest, or is otherwise required, in each case pursuant to Regulation 14A under the Act and Rule 14a-11 thereunder (and such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected); (ii) as to any other business that the stockholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting, the text of the proposal or business (including the text of any resolutions proposed for consideration and in the event that such business includes a proposal to amend the By-Laws of Nasdaq, the language of the proposed amendment), the reasons for conducting such business at the meeting and any material interest in such business of such stockholder and the beneficial owner, if any, on whose behalf the proposal is made; and (iii) as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made (A) the name and address of such stockholder, as they appear on Nasdaq's books, and of such beneficial owner, (B) the class and number of shares of capital stock of Nasdaq which are owned beneficially and of record by such stockholder and such beneficial owner, (C) a representation that the stockholder is a holder of record of stock of Nasdaq entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to propose such business or nomination, and (D) a representation whether the stockholder or the beneficial owner, if any, intends or is part of a group which intends (1) to deliver a proxy statement and/or form of proxy to holders of at least the percentage of Nasdaq's outstanding capital stock required to approve or adopt the proposal or elect the nominee and/or (2) otherwise to solicit proxies from stockholders in support of such proposal or nomination. Nasdaq

may require any proposed nominee to furnish such other information as it may reasonably require to determine the eligibility of such proposed nominee to serve as a director of Nasdaq.

(c) Notwithstanding anything in the second sentence of Section 3.1(b) to the contrary, in the event that the number of directors to be elected to the Board at an annual meeting is increased and there is no public announcement by Nasdaq naming the nominees for the additional directorships at least one hundred days prior to the first anniversary of the preceding year's annual meeting, a stockholder's notice required by this Section 3.1 shall also be considered timely, but only with respect to nominees for the additional directorships, if it shall be delivered to the Secretary at the principal executive offices of Nasdaq not later than the close of business on the tenth day following the day on which such public announcement is first made by Nasdaq.

Special Meetings of Stockholders

Sec. 3.2 Only such business shall be conducted at a special meeting of stockholders as shall have been brought before the meeting pursuant to Nasdaq's notice of meeting. Nominations of persons for election to the Board may be made at a special meeting of stockholders at which directors are to be elected pursuant to Nasdaq's notice of meeting (a) by or at the direction of the Board or the Nominating Committee or (b) provided that the Board has determined that directors shall be elected at such meeting, by any stockholder of Nasdaq who is a stockholder of record at the time the notice provided for in this Section 3.2 is delivered to the Secretary of Nasdaq, who is entitled to vote at the meeting and upon such election and who complies with the notice procedures set forth in this Section 3.2. In the event Nasdaq calls a special meeting of stockholders for the purpose of electing one or more directors to the Board, any such stockholder entitled to vote in such election may nominate a person or persons (as the case may be) for election to such position(s) as specified in Nasdaq's notice of meeting, if the stockholder's notice required by Section 3.1(b) shall be delivered to the Secretary at the principal executive offices of Nasdaq not earlier than the close of business on the one hundred twentieth day prior to such special meeting and not later than the close of business on the later of the ninetieth day prior to such special meeting or the tenth day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by the Board to be elected at such meeting. In no event shall the public announcement of an adjournment or postponement of a special meeting commence a new time period (or extend any time period) for the giving of a stockholder's notice as described above.

General

Sec. 3.3 (a) Only such persons who are nominated in accordance with the procedures set forth in this Article III shall be eligible to be elected at an annual or special meeting of stockholders of Nasdaq to serve as directors and only such business shall be conducted at a meeting of stockholders as shall have been brought before the meeting in accordance with the procedures set forth in this Article III. Except as otherwise provided by law, the chairman of the meeting shall have the power and duty (i) to determine whether a nomination or any business proposed to be brought before the meeting was made or proposed, as the case may be, in accordance with the procedures set forth in this Article III (including whether the stockholder or beneficial owner, if any, on whose behalf the nomination or proposal is made solicited (or is part of a group which solicited) or did not so solicit, as the case may be, proxies in support of such stockholder's nominee or proposal in compliance with such stockholder's representation as required by Section 3.1(b)(iii)(D)) and (ii) if any proposed nomination or business was not made or proposed in compliance with this Article III, to declare that such nomination shall be disregarded or that such proposed business shall not be transacted. Notwithstanding the foregoing provisions of this Article III, if the stockholder (or a qualified representative of the stockholder) does not appear at the annual or special meeting of stockholders of Nasdaq to present a nomination or business, such nomination shall be disregarded and such proposed business shall not be transacted, notwithstanding that proxies in respect of such vote may have been received by Nasdaq.

(b) For purposes of this Article III, "public announcement" shall include disclosure in a press release reported by the Dow Jones News Service, Associated Press or comparable national news service or in a document publicly filed by Nasdaq with the Commission pursuant to Section 13, 14, or 15(d) of the Act.

(c) Notwithstanding the foregoing provisions of this Article III, a stockholder shall also comply with all applicable requirements of the Act and the rules and regulations thereunder with respect to the matters set forth in this Article III. Nothing in Article III shall be deemed to affect any rights (i) of stockholders to request inclusion of proposals in Nasdaq's proxy statement pursuant to Rule 14a-8 under the Act or (ii) of the holders of any series of Preferred Stock to elect directors pursuant to any applicable provisions of the Restated Certificate of Incorporation.

Conduct of Meetings

Sec. 3.4 The date and time of the opening and the closing of the polls for each matter upon which the stockholders will vote at a meeting shall be announced at the meeting by the person presiding over the meeting. The Board may adopt by resolution such rules and regulations for the conduct of the meeting of stockholders as it shall deem appropriate. Except to the extent inconsistent with such rules and regulations as adopted by the Board, the person presiding over any meeting of stockholders shall have the right and authority to convene and to adjourn the meeting, to prescribe such rules, regulations and procedures and to do all such acts as, in the

judgment of such chairman, are appropriate for the proper conduct of the meeting. Such rules, regulations or procedures, whether adopted by the Board or prescribed by the presiding officer of the meeting, may include, without limitation, the following: (a) the establishment of an agenda or order of business for the meeting; (b) rules and procedures for maintaining order at the meeting and the safety of those present; (c) limitations on attendance at or participation in the meeting to stockholders of record of Nasdaq, their duly authorized and constituted proxies or such other persons as the chairman of the meeting shall determine; (d) restrictions on entry to the meeting after the time fixed for the commencement thereof; and (e) limitations on the time allotted to questions or comments by participants. Unless and to the extent determined by the Board or the person presiding over the meeting, meetings of stockholders shall not be required to be held in accordance with the rules of parliamentary procedure.

ARTICLE IV

BOARD OF DIRECTORS

General Powers

Sec. 4.1 The property, business, and affairs of Nasdaq shall be managed by or under the direction of the Board. The Board may exercise all such powers of Nasdaq and have the authority to perform all such lawful acts as are permitted by law, the Restated Certificate of Incorporation, these By-Laws, or the Delegation Plan for the organization, development, and operation of electronic data processing and communications facilities, including computer hardware and software, for the purposes of: (a) supporting the operation, regulation, and surveillance of The Nasdaq Stock Market and other organized securities markets established for trading equity securities, debt securities, derivative instruments, or other financial products that may be developed; (b) supporting the efficient clearance and settlement of securities transactions; (c) supporting various elements of the national market system pursuant to Section 11A of the Act and the rules thereunder; (d) assisting the NASD in fulfilling its self-regulatory responsibilities as set forth in Section 15A of the Act; and (e) supporting such other initiatives as the Board may deem appropriate. To the fullest extent permitted by applicable law, the Restated Certificate of Incorporation, and these By-Laws, the Board may delegate any of its powers to a committee appointed pursuant to Section 4.13 or to Nasdaq staff in a manner not inconsistent with the Delegation Plan.

Number of Directors

Sec. 4.2 The exact number of members of the Board shall be determined by resolution adopted by the Board from time to time. Any new Director position created as a result of an increase in the size of the Board shall be filled in accordance with the Restated Certificate of Incorporation.

Qualifications

Sec. 4.3 Directors need not be stockholders of Nasdaq. The number of Non-Industry Directors, including at least one Public Director and at least one issuer representative, shall equal or exceed the number of Industry Directors, unless the Board consists of ten or more Directors. In such case at least two Directors shall be issuer representatives.

Election

Sec. 4.4 Except as otherwise provided by law, these By-Laws, or the Delegation Plan, after the first meeting of Nasdaq at which Directors are elected, a class of Directors of Nasdaq shall be elected each year at the annual meeting of the stockholders, or at a special meeting called for such purpose in lieu of the annual meeting. If the annual election of Directors is not held on the date designated therefor, the Directors shall cause such election to be held as soon thereafter as convenient.

Resignation

Sec. 4.5 Any Director may resign at any time either upon notice of resignation to the Chair of the Board, the Chief Executive Officer, the President, or the Secretary. Any such resignation shall take effect at the time specified therein or, if the time is not specified, upon receipt thereof, and the acceptance of such resignation, unless required by the terms thereof, shall not be necessary to make such resignation effective.

Removal

Sec. 4.6 Any or all of the Directors may be removed from office at any time, but only for cause, by the affirmative vote at least 66 2/3 percent of the total voting power of the outstanding shares of capital stock of Nasdaq entitled to vote generally in the election of directors, voting together as a single class.

Disqualification

Sec. 4.7 The term of office of a Director shall terminate immediately upon a determination by the Board, by a majority vote of the remaining Directors, that: (a) the Director no longer satisfies the classification for which the Director was elected; and (b) the Director's continued service as such would violate the compositional requirements of the Board set forth in Section 4.3. If the term of office of a Director terminates under this Section, and the remaining term of office of such Director at the time of termination is not more than six months, during the period of vacancy the Board shall not be deemed to be in violation of Section 4.3 by virtue of such vacancy.

Filling of Vacancies

Sec. 4.8 If a Director position becomes vacant, whether because of death, disability, disqualification, removal, or resignation, the Nominating Committee shall nominate, and the Board shall elect by majority vote, a person satisfying the classification (Industry, Non-Industry, or Public Director), if applicable, for the directorship as provided in Section 4.3 to fill such vacancy, except that if the remaining term of office for the vacant Director position is not more than six months, no replacement shall be required.

Quorum and Voting

Sec. 4.9 (a) At all meetings of the Board, unless otherwise set forth in these By-Laws or required by law, a quorum for the transaction of business shall consist of a majority of the Board. In the absence of a quorum, a majority of the Directors present may adjourn the meeting until a quorum be present.

(b) Except as provided herein or by applicable law, the vote of a majority of the Directors present at a meeting at which a quorum is present shall be the act of the Board.

Regulation

Sec. 4.10 The Board may adopt such rules, regulations, and requirements for the conduct of the business and management of Nasdaq, not inconsistent with law, the Restated Certificate of Incorporation, these By-Laws, the Rules of the Association, or the By-Laws of the NASD, as the Board may deem proper. A Director shall, in the performance of such Director's duties, be fully protected in relying in good faith upon the books of account or reports made to Nasdaq by any of its officers, by an independent certified public accountant, by an appraiser selected with reasonable care by the Board or any committee of the Board or by any agent of Nasdaq, or in relying in good faith upon other records of Nasdaq.

Meetings

Sec. 4.11 (a) An annual meeting of the Board shall be held for the purpose of organization, election of officers, and transaction of any other business. If such meeting is held promptly after and at the place specified for the annual meeting of the stockholders, no notice of the annual meeting of the Board need be given. Otherwise, such annual meeting shall be held at such time and place as may be specified in a notice given in accordance with Section 4.12.

(b) Regular meetings of the Board may be held at such time and place, within or without the State of Delaware, as determined from time to time by the Board. After such determination has been made, notice shall be given in accordance with Section 4.12.

(c) Special meetings of the Board may be called by the Chair of the Board, by the Chief Executive Officer, by the President, or by at least one-third of the Directors then in office. Notice of any special meeting of the Board shall be given to each Director in accordance with Section 4.12.

(d) Directors or members of any committee appointed by the Board may participate in a meeting of the Board or of such committee through the use of a conference telephone or other communications equipment by means of which all persons participating in the meeting may hear one another, and such participation in a meeting shall constitute presence in person at such meeting for all purposes.

Notice of Meetings; Waiver of Notice

Sec. 4.12 (a) Notice of any meeting of the Board shall be deemed to be duly given to a Director if: (i) mailed to the address last made known in writing to Nasdaq by such Director as the address to which such notices are to be sent, at least seven days before the day on which such meeting is to be held; (ii) sent to the Director at such address by telegraph, telefax, cable, radio, or wireless, not later than the day before the day on which such meeting is to be held; or (iii) delivered to the Director personally or orally, by telephone or otherwise, not later than the day before the day on which such meeting is to be held. Each notice shall state the time and place of the meeting and the purpose(s) thereof.

(b) Notice of any meeting of the Board need not be given to any Director if waived by that Director in writing or by electronic transmission (or by telegram, telefax, cable, radio, or wireless and subsequently confirmed in writing or by electronic transmission) whether before or after the holding of such meeting, or if such Director is present at such meeting, subject to Article X, Section 10.3(b).

(c) Any meeting of the Board shall be a legal meeting without any prior notice if all Directors then in office shall be present thereat, except when a Director attends the meeting for the express purpose of objecting at the beginning of the meeting to the transaction of any business because the meeting is not lawfully called or convened.

Committees

Sec. 4.13 (a) The Board may, by resolution or resolutions adopted by the Board, appoint one or more committees. Except as herein provided, vacancies in membership of any committee shall be filled by the Board. The Board may designate one or more Directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting

of the committee. In the absence or disqualification of any member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not such member or members constitute a quorum, may unanimously appoint another Director to act at the meeting in the place of any such absent or disqualified member. Members of a committee shall hold office for such period as may be fixed by a resolution adopted by the Board. Any member of a committee may be removed from such committee only by the Board, after appropriate notice.

(b) The Board may, by resolution or resolutions adopted by a majority of the whole Board, delegate to one or more committees the power and authority to act on behalf of the Board in carrying out the functions and authority delegated to Nasdaq by the NASD under the Delegation Plan. Such delegations shall be in conformance with applicable law, the Restated Certificate of Incorporation, these By-Laws, and the Delegation Plan. Action taken by a committee pursuant to such delegated authority shall be subject to review, ratification, or rejection by the Board. In all other matters, the Board may, by resolution or resolutions adopted by the Board, delegate to one or more committees that consist solely of one or more Directors the power and authority to act on behalf of the Board in the management of the business and affairs of Nasdaq to the extent permitted by law and not inconsistent with the Delegation Plan. A committee, to the extent permitted by law and provided in the resolution or resolutions creating such committee, may authorize the seal of Nasdaq to be affixed to all papers that may require it.

(c) Except as otherwise provided by applicable law, no committee shall have the power or authority of the Board with regard to: amending the Restated Certificate of Incorporation or the By-Laws of Nasdaq; adopting an agreement of merger or consolidation; recommending to the stockholders the sale, lease, or exchange of all or substantially all Nasdaq's property and assets; or recommending to the stockholders a dissolution of Nasdaq or a revocation of a dissolution. Unless the resolution of the Board expressly so provides, no committee shall have the power or authority to authorize the issuance of stock.

(d) The Board may appoint an Executive Committee, which shall, to the fullest extent permitted by Delaware Law and other applicable law, have and be permitted to exercise all the powers and authority of the Board in the management of the business and affairs of Nasdaq between meetings of the Board, and which may authorize the seal of Nasdaq to be affixed to all papers that may require it. The number of Non-Industry Directors on the Executive Committee shall equal or exceed the number of Industry Directors on the Executive Committee. The percentage of Public Directors on the Executive Committee shall be at least as great as the percentage of Public Directors on the whole Board. An Executive Committee member shall hold office for a term of one year.

(e) The Board may appoint a Finance Committee. The Finance Committee shall advise the Board with respect to the oversight of the financial operations and conditions of Nasdaq, including recommendations for Nasdaq's annual operating and capital budgets and proposed changes to the rates and fees charged by Nasdaq. A Finance Committee member shall hold office for a term of one year.

(f) The Board shall appoint a Management Compensation Committee. The Management Compensation Committee shall consider and recommend compensation policies, programs, and practices for employees of Nasdaq. A majority of Management Compensation Committee members shall be Non-Industry Directors. The Chief Executive Officer shall be an ex-officio, non-voting member of the Management Compensation Committee. A Management Compensation Committee member shall hold office for a term of one year.

(g) The Board shall appoint an Audit Committee.

(i) The Audit Committee shall consist of four or five Directors, none of whom shall be officers or employees of Nasdaq. A majority of the Audit Committee members shall be Non-Industry Directors. The Audit Committee shall include two Public Directors. A Public Director shall serve as Chair of the Committee. An Audit Committee member shall hold office for a term of one year.

(ii) No member of the Audit Committee shall participate in the consideration or decision of any matter relating to a particular Nasdaq member, company, or individual if such Audit Committee member has a material interest in, or a professional, business, or personal relationship with, that member, company, or individual, or if such participation shall create an appearance of impropriety. An Audit Committee member shall consult with the General Counsel of Nasdaq to determine if recusal is necessary. If a member of the Audit Committee is recused from consideration of a matter, any decision on the matter shall be by a vote of a majority of the remaining members of the Audit Committee.

(h) The Board may appoint a Nominating Committee. The Nominating Committee shall nominate Directors for each vacant or new Director position on the Board and members for each vacant or new position on the Nasdaq Listing and Hearing Review Council for appointment by the Board.

(i) The Nominating Committee shall consist of no fewer than six and no more than nine members. The number of Non-Industry members on the Nominating Committee shall equal or exceed the number of Industry members on the Nominating Committee. If the Nominating Committee consists of six members, at least two shall be Public committee members. If the Nominating Committee consists of seven or more members, at least three shall be Public committee members. No officer or employee of Nasdaq shall serve as a member of the Nominating Committee in any voting or non-voting capacity. No more than three of the Nominating Committee members and no more than two of the Industry committee members shall be current members of the Nasdaq Board.

(ii) A Nominating Committee member may not simultaneously serve on the Nominating Committee and the Board, unless such member is in his or her final year of service on the Board, and following that year, that member may not stand for election to the Board until such time as he or she is no longer a member of the Nominating Committee.

(iii) Members of the Nominating Committee shall be appointed annually by the Board and may be removed by majority vote of the Board.

(iv) The Secretary shall collect from each nominee for Director such information as is reasonably necessary to serve as the basis for a determination of the nominee's classification as an Industry, Non-Industry, or Public Director, if applicable, and the Secretary shall certify to the Nominating Committee each nominee's classification, if applicable. Directors shall update the information submitted under this subsection at least annually and upon request of the Secretary, and shall report immediately to the Secretary any change in such information.

(i) Each committee may adopt its own rules of procedure and may meet at stated times or on notice as such committee may determine. Each committee shall keep regular minutes of its proceedings and report the same to the Board when required.

(j) Unless otherwise provided by these By-Laws, a majority of a committee shall constitute a quorum for the transaction of business, and the vote of a majority of the members of such committee present at a meeting at which a quorum is present shall be an act of such committee.

(k) Upon request of the Secretary of Nasdaq, each prospective committee member who is not a Director shall provide to the Secretary such information as is reasonably necessary to serve as the basis for a determination of the prospective committee member's classification as an Industry, Non-Industry, or Public committee member. The Secretary of Nasdaq shall certify to the Board each prospective committee member's classification. Such committee members shall update the information submitted under this subsection at least annually and upon request of the Secretary of Nasdaq, and shall report immediately to the Secretary any change in such information.

Conflicts of Interest; Contracts and Transactions Involving Directors

Sec. 4.14 (a) A Director or a member of the Nasdaq Listing and Hearing Review Council or a committee shall not directly or indirectly participate in any adjudication of the interests of any party if that Director or Nasdaq Listing and Hearing Review Council or committee member has a conflict of interest or bias, or if circumstances otherwise exist where his or her fairness might reasonably be questioned. In any such case, the Director or Nasdaq Listing and Hearing Review Council or committee member shall recuse himself or herself or shall be disqualified.

(b) No contract or transaction between Nasdaq and one or more of its Directors or officers, or between Nasdaq and any other corporation, partnership, association, or other organization in which one or more of its Directors or officers are directors or officers, or have a financial interest, shall be void or voidable solely for this reason if: (i) the material facts pertaining to such Director's or officer's relationship or interest and the contract or transaction are disclosed or are known to the Board or the committee, and the Board or committee in good faith authorizes the contract or transaction by the affirmative vote of a majority of the disinterested Directors, even though the disinterested Directors be less than a quorum; (ii) the material facts are disclosed or become known to the Board or committee after the contract or transaction is entered into, and the Board or committee in good faith ratifies the contract or transaction by the affirmative vote of a majority of the disinterested Directors, even though the disinterested Directors be less than a quorum; or (iii) the material facts pertaining to the Director's or officer's relationship or interest and the contract or transaction are disclosed or are known to the stockholders entitled to vote thereon, and the contract or transaction is specifically approved in good faith by vote of the stockholders.

Communication of Views Regarding NASD or NASD Regulation Election or Nomination

Sec. 4.15 Nasdaq, the Board, any committee, the Nasdaq Listing and Hearing Review Council, and Nasdaq staff shall not take any position publicly or with an NASD member or person associated with or employed by a member with respect to any candidate in a contested election or nomination held pursuant to the NASD By-Laws or the NASD Regulation By-Laws. A Director, committee member, or Nasdaq Listing and Hearing Review Council member may communicate his or her views with respect to a candidate if such individual acts solely in his or her individual capacity and disclaims any intention to communicate in any official capacity on behalf of Nasdaq, the Board, the Nasdaq Listing and Hearing Review Council, or any committee. Nasdaq, the Board, the Nasdaq Listing and Hearing Review Council, any committee, and the Nasdaq staff shall not provide any administrative support to any candidate in a contested election or nomination conducted pursuant to the NASD By-Laws or the NASD Regulation By-Laws.

Action Without Meeting

Sec. 4.16 Any action required or permitted to be taken at a meeting of the Board or of a committee may be taken without a meeting if all Directors or all members of such committee, as the case may be, consent thereto in accordance with applicable law.

Appointment And Authority

Sec. 5.1 The Board shall appoint a Nasdaq Listing and Hearing Review Council. The Nasdaq Listing and Hearing Review Council may be authorized to act for the Board in a manner consistent with these By-Laws, the Rules of the Association, and the Delegation Plan with respect to listing decisions. The Nasdaq Listing and Hearing Review Council also shall consider and make recommendations to the Board on policy and rule changes relating to issuer listings. The Board may delegate such other powers and duties to the Nasdaq Listing and Hearing Review Council as the Board deems appropriate in a manner not inconsistent with the Delegation Plan.

Number of Members and Qualifications

Sec. 5.2 (a) The Nasdaq Listing and Hearing Review Council shall consist of no fewer than eight and no more than 18 members, of which not more than 50 percent may be engaged in market-making activity or employed by a member whose revenues from market-making activity exceed ten percent of its total revenues. The Nasdaq Listing and Hearing Review Council shall include at least five Non-Industry members.

(b) As soon as practicable following the appointment of members, the Nasdaq Listing and Hearing Review Council shall elect a Chair from among its members. The Chair shall have such powers and duties as may be determined from time to time by the Nasdaq Listing and Hearing Review Council. The Board, by resolution adopted by a majority of Directors then in office and after notice to the NASD Board, may remove the Chair from such position at any time for refusal, failure, neglect, or inability to discharge the duties of Chair.

Nomination Process

Sec. 5.3 The Secretary of Nasdaq shall collect from each nominee for the office of member of the Nasdaq Listing and Hearing Review Council such information as is reasonably necessary to serve as the basis for a determination of the nominee's qualifications and classification as an Industry or Non-Industry member, and the Secretary shall certify to the Nominating Committee each nominee's qualifications and classification. After appointment to the Nasdaq Listing and Hearing Review Council, each member shall update such information at least annually and upon request of the Secretary, and shall report immediately to the Secretary any change in such information.

Term of Office

Sec. 5.4 (a) Except as otherwise provided in this Article, each Nasdaq Listing and Hearing Review Council member shall hold office for a term of two years or until a successor is duly appointed and qualified, except in the event of earlier termination from office by reason of death, resignation, removal, disqualification, or other reason.

(b) The Nasdaq Listing and Hearing Review Council shall be divided into two classes. The term of office of those of the first class shall expire in January 1999, and the term of office of those of the second class shall expire one year thereafter. Beginning in January 1999, members shall be appointed for a term of two years to replace those whose terms expire.

(c) Beginning in 1999, no member may serve more than two consecutive terms, except that if a member is appointed to fill a term of less than one year, such member may serve up to two consecutive terms following the expiration of such member's initial term.

Resignation

Sec. 5.5 A member of the Nasdaq Listing and Hearing Review Council may resign at any time upon written notice to the Board. Any such resignation shall take effect at the time specified therein, or if the time is not specified, upon receipt thereof, and the acceptance of such resignation, unless required by the terms thereof, shall not be necessary to make such resignation effective.

Removal

Sec. 5.6 Any or all of the members of the Nasdaq Listing and Hearing Review Council may be removed from office at any time for refusal, failure, neglect, or inability to discharge the duties of such office by majority vote of the Board.

Disqualification

Sec. 5.7 Notwithstanding Section 5.4, the term of office of a Nasdaq Listing and Hearing Review Council member shall terminate immediately upon a determination by the Board, by a majority vote, that: (a) The member no longer satisfies the classification (Industry or Non-Industry) for which the member was elected; and (b) the member's continued service as such would violate the compositional requirements of the Nasdaq Listing and Hearing Review Council set forth in Section 5.2. If the term of office of a Nasdaq Listing and Hearing Review Council member terminates under this Section, and the remaining term of office of such member at the time of termination is not more than six months, during the period of vacancy the Nasdaq Listing and Hearing Review Council shall not be deemed to be in violation of Section 5.2 by virtue of such vacancy.

Filling of Vacancies

Sec. 5.8 If a position on the Nasdaq Listing and Hearing Review Council becomes vacant, whether because of death, disability, disqualification, removal, or resignation, the Nominating Committee shall nominate, and the Board shall appoint a person satisfying the qualifications for the position as provided in Section 5.2(a) to fill such vacancy, except that if the remaining term of office for the vacant position is not more than six months, no replacement shall be required.

Quorum and Voting

Sec. 5.9 At all meetings of the Nasdaq Listing and Hearing Review Council, unless otherwise set forth in these By-Laws, a quorum for the transaction of business shall consist of a majority of the Nasdaq Listing and Hearing Review Council, including one Non-Industry member. In the absence of a quorum, a majority of the members present may adjourn the meeting until a quorum is present.

Meetings

Sec. 5.10 The members of the Nasdaq Listing and Hearing Review Council may participate in a meeting through the use of a conference telephone or other communications equipment by means of which all persons participating in the meeting may hear one another, and such participation in a meeting shall constitute presence in person at such meeting for all purposes.

ARTICLE VI

COMPENSATION

Compensation of Board, Council, and Committee Members

Sec. 6.1 The Board may provide for reasonable compensation of the Chair of the Board, the Directors, Nasdaq Listing and Hearing Review Council members, and the members of any committee. The Board may also provide for reimbursement of reasonable expenses incurred by such persons in connection with the business of Nasdaq.

ARTICLE VII

OFFICERS, AGENTS, AND EMPLOYEES

Principal Officers

Sec. 7.1 The principal officers of Nasdaq shall be elected by the Board and shall include a Chair, a Chief Executive Officer, a President, a Secretary, a Treasurer, and such other officers as may be designated by the Board. One person may hold the offices and perform the duties of any two or more of said principal offices, except the offices and duties of President and Vice President or of President and Secretary. None of the principal officers, except the Chair of the Board, need be Directors of Nasdaq.

Election of Principal Officers; Term of Office

Sec. 7.2 (a) The principal officers of Nasdaq shall be elected annually by the Board at the annual meeting of the Board convened pursuant to Section 4.11(a). Failure to elect any principal officer annually shall not dissolve Nasdaq.

(b) If the Board shall fail to fill any principal office at an annual meeting, or if any vacancy in any principal office shall occur, or if any principal office shall be newly created, such principal office may be filled at any regular or special meeting of the Board.

(c) Each principal officer shall hold office until a successor is duly elected and qualified, or until death, resignation, or removal.

Subordinate Officers, Agents, or Employees

Sec. 7.3 In addition to the principal officers, Nasdaq may have one or more subordinate officers, agents, and employees as the Board may deem necessary, each of whom shall hold office for such period and exercise such authority and perform such duties as the Board, the Chief Executive Officer, the President, or any officer designated by the Board, may from time to time determine. Agents and employees of Nasdaq shall be under the supervision and control of the officers of Nasdaq, unless the Board, by resolution, provides that an agent or employee shall be under the supervision and control of the Board.

Delegation of Duties of Officers

Sec. 7.4 The Board may delegate the duties and powers of any officer of Nasdaq to any other officer or to any Director for a specified period of time and for any reason that the Board may deem sufficient.

Resignation and Removal of Officers

Sec. 7.5 (a) Any officer may resign at any time upon notice of resignation to the Board, the Chief Executive Officer, the President, or the Secretary. Any such resignation shall take effect upon receipt of such notice or at any later time specified therein. The acceptance of a resignation shall not be necessary to make the resignation effective.

(b) Any officer of Nasdaq may be removed, with or without cause, by resolution adopted by a majority of the Directors then in office at any regular or special meeting of the Board or by a written consent signed by all of the Directors then in office. Such removal shall be without prejudice to the contractual rights of the affected officer, if any, with

Bond

Sec. 7.6 Nasdaq may secure the fidelity of any or all of its officers, agents, or employees by bond or otherwise.

Chair of the Board

Sec. 7.7 The Chair of the Board shall preside at all meetings of the Board and stockholders at which the Chair is present. The Chair shall exercise such other powers and perform such other duties as may be assigned to the Chair from time to time by the Board.

Chief Executive Officer

Sec. 7.8 The Chief Executive Officer shall, in the absence of the Chair of the Board, preside at all meetings of the Board and stockholders at which the Chief Executive Officer is present. The Chief Executive Officer shall be the chief executive officer of Nasdaq and shall have general supervision over the business and affairs of Nasdaq. The Chief Executive Officer shall have all powers and duties usually incident to the office of the Chief Executive Officer, except as specifically limited by a resolution of the Board. The Chief Executive Officer shall exercise such other powers and perform such other duties as may be assigned to the Chief Executive Officer from time to time by the Board.

President

Sec. 7.9 The President shall, in the absence of the Chair of the Board and the Chief Executive Officer, preside at all meetings of the Board and stockholders at which the President is present. The President shall have general supervision over the business and affairs of Nasdaq. The President shall have all powers and duties usually incident to the office of the President, except as specifically limited by a resolution of the Board. The President shall exercise such other powers and perform such other duties as may be assigned to the President from time to time by the Board.

Vice President

Sec. 7.10 The Board shall elect one or more Vice Presidents. In the absence or disability of the President or if the office of President becomes vacant, the Vice Presidents in the order determined by the Board, or if no such determination has been made, in the order of their seniority, shall perform the duties and exercise the powers of the President, subject to the right of the Board at any time to extend or restrict such powers and duties or to assign them to others. Any Vice President may have such additional designations in such Vice President's title as the Board may determine. The Vice Presidents shall generally assist the President in such manner as the President shall direct. Each Vice President shall exercise such other powers and perform such other duties as may be assigned to such Vice President from time to time by the Board, the Chief Executive Officer or the President. The term "Vice President" used in this Section shall include the positions of Executive Vice President, Senior Vice President, and Vice President.

Secretary

Sec. 7.11 The Secretary shall act as Secretary of all meetings of the stockholders and of the Board at which the Secretary is present, shall record all the proceedings of all such meetings in a book to be kept for that purpose, shall have supervision over the giving and service of notices of Nasdaq, and shall have supervision over the care and custody of the corporate records and the corporate seal of Nasdaq. The Secretary shall be empowered to affix the corporate seal to documents, the execution of which on behalf of Nasdaq under its seal, is duly authorized, and when so affixed, may attest the same. The Secretary shall have all powers and duties usually incident to the office of Secretary, except as specifically limited by a resolution of the Board. The Secretary shall exercise such other powers and perform such other duties as may be assigned to the Secretary from time to time by the Board, the Chief Executive Officer or the President.

Assistant Secretary

Sec. 7.12 In the absence of the Secretary or in the event of the Secretary's inability or refusal to act, any Assistant Secretary, approved by the Board, shall exercise all powers and perform all duties of the Secretary. An Assistant Secretary shall also exercise such other powers and perform such other duties as may be assigned to such Assistant Secretary from time to time by the Board or the Secretary.

Treasurer

Sec. 7.13 The Treasurer shall have general supervision over the care and custody of the funds and over the receipts and disbursements of Nasdaq and shall cause the funds of Nasdaq to be deposited in the name of Nasdaq in such banks or other depositories as the Board may designate. The Treasurer shall have supervision over the care and safekeeping of the securities of Nasdaq. The Treasurer shall have all powers and duties usually incident to the office of Treasurer except as specifically limited by a resolution of the Board. The Treasurer shall exercise such other powers and perform such other duties as may be assigned to the Treasurer from time to time by the Board, the Chief Executive Officer or the President.

Assistant Treasurer

Sec. 7.14 In the absence of the Treasurer or in the event of the Treasurer's inability or refusal to act, any Assistant Treasurer, approved by the Board, shall exercise all powers and perform all duties of the Treasurer. An Assistant Treasurer shall also exercise such other powers and perform such other duties as may be assigned to such Assistant Treasurer from time to time by the Board or the Treasurer.

ARTICLE VIII

INDEMNIFICATION

Indemnification of Directors, Officers, Employees, Agents, Nasdaq Listing and Hearing Review Council and Committee Members

Sec. 8.1 (a) Nasdaq shall indemnify, and hold harmless, to the fullest extent permitted by Delaware law as it presently exists or may thereafter be amended, any person (and the heirs, executors, and administrators of such person) who, by reason of the fact that he or she is or was a Director, officer, or employee of Nasdaq or a Nasdaq Listing and Hearing Review Council or committee member, or is or was a Director, officer, or employee of Nasdaq who is or was serving at the request of Nasdaq as a director, officer, employee, or agent of another corporation, partnership, joint venture, trust, enterprise, or non-profit entity, including service with respect to employee benefit plans, is or was a party, or is threatened to be made a party to:

(i) any threatened, pending, or completed action, suit, or proceeding, whether civil, criminal, administrative, or investigative (other than an action by or in the right of Nasdaq) against expenses (including attorneys' fees and disbursements), judgments, fines, and amounts paid in settlement actually and reasonably incurred by such person in connection with any such action, suit, or proceeding; or

(ii) any threatened, pending, or completed action or suit by or in the right of Nasdaq to procure a judgment in its favor against expenses (including attorneys' fees and disbursements) actually and reasonably incurred by such person in connection with the defense or settlement of such action or suit.

(b) Nasdaq shall advance expenses (including attorneys' fees and disbursements) reasonably and actually incurred in defending any action, suit, or proceeding in advance of its final disposition to persons described in subsection (a); provided, however, that the payment of expenses incurred by such person in advance of the final disposition of the matter shall be conditioned upon receipt of a written undertaking by that person to repay all amounts advanced if it should be ultimately determined that the person is not entitled to be indemnified under this Section or otherwise.

(c) Nasdaq may, in its discretion, indemnify and hold harmless, to the fullest extent permitted by Delaware law as it presently exists or may thereafter be amended, any person (and the heirs, executors, and administrators of such persons) who, by reason of the fact that he or she is or was an agent of Nasdaq or is or was an agent of Nasdaq who is or was serving at the request of Nasdaq as a director, officer, employee, or agent of another corporation, partnership, trust, enterprise, or non-profit entity, including service with respect to employee benefit plans, was or is a party, or is threatened to be made a party to any action or proceeding described in subsection (a).

(d) Nasdaq may, in its discretion, pay the expenses (including attorneys' fees and disbursements) reasonably and actually incurred by an agent in defending any action, suit, or proceeding in advance of its final disposition; provided, however, that the payment of expenses incurred by such person in advance of the final disposition of the matter shall be conditioned upon receipt of a written undertaking by that person to repay all amounts advanced if it should be ultimately determined that the person is not entitled to be indemnified under this Section or otherwise.

(e) Notwithstanding the foregoing or any other provision of these By-Laws, no advance shall be made by Nasdaq to an agent or non-officer employee if a determination is reasonably and promptly made by the Board by a majority vote of those Directors who have not been named parties to the action, even though less than a quorum, or, if there are no such Directors or if such Directors so direct, by independent legal counsel, that, based upon the facts known to the Board or such counsel at the time such determination is made: (1) The person seeking advancement of expenses (i) acted in bad faith, or (ii) did not act in a manner that he or she reasonably believed to be in or not opposed to the best interests of Nasdaq; (2) with respect to any criminal proceeding, such person believed or had reasonable cause to believe that his or her conduct was unlawful; or (3) such person deliberately breached his or her duty to Nasdaq.

(f) The indemnification provided by this Section in a specific case shall not be deemed exclusive of any other rights to which a person seeking indemnification may be entitled, both as to action in his or her official capacity and as to action in another capacity while holding such office, and shall continue as to a person who has ceased to be a Director, officer, Nasdaq Listing and Hearing Review Council or committee member, employee, or agent and shall inure to the benefit of such person's heirs, executors, and administrators.

(g) Notwithstanding the foregoing, but subject to subsection (j), Nasdaq shall be required to indemnify any person identified in subsection (a) in connection with a proceeding (or part thereof) initiated by such person only if the initiation of such proceeding (or part thereof) by such

person was authorized by the Board.

(h) Nasdaq's obligation, if any, to indemnify or advance expenses to any person who is or was serving at its request as a director, officer, employee, or agent of another corporation, partnership, joint venture, trust, enterprise, or non-profit entity shall be reduced by any amount such person may collect as indemnification or advancement from such other corporation, partnership, joint venture, trust, enterprise, or non-profit entity.

(i) Any repeal or modification of the foregoing provisions of this Section shall not adversely affect any right or protection hereunder of any person respecting any act or omission occurring prior to the time of such repeal or modification.

(j) If a claim for indemnification or advancement of expenses under this Article is not paid in full within 60 days after a written claim therefor by an indemnified person has been received by Nasdaq, the indemnified person may file suit to recover the unpaid amount of such claim and, if successful in whole or in part, shall be entitled to be paid the expense of prosecuting such claim. In any such action, Nasdaq shall have the burden of proving that the indemnified person is not entitled to the requested indemnification or advancement of expenses under Delaware law.

Indemnification Insurance

Sec. 8.2 Nasdaq shall have power to purchase and maintain insurance on behalf of any person who is or was a Director, officer, Nasdaq Listing and Hearing Review Council or committee member, employee, or agent of Nasdaq, or is or was serving at the request of Nasdaq as a director, officer, employee, or agent of another corporation, partnership, joint venture, trust, enterprise, or non-profit entity against any liability asserted against such person and incurred by such person in any such capacity, or arising out of such person's status as such, whether or not Nasdaq would have the power to indemnify such person against such liability hereunder.

ARTICLE IX

CAPITAL STOCK

Certificates

Sec. 9.1 Each stockholder shall be entitled to a certificate or certificates in such form as shall be approved by the Board, certifying the number of shares of capital stock in Nasdaq owned by such stockholder.

Signatures

Sec. 9.2 (a) Certificates for shares of capital stock of Nasdaq shall be signed in the name of Nasdaq by two officers with one being the Chair of the Board, the Chief Executive Officer, the President, or a Vice President, and the other being the Secretary, the Treasurer, or such other officer that may be authorized by the Board. Such certificates may be sealed with the corporate seal of Nasdaq or a facsimile thereof.

(b) If any such certificates are countersigned by a transfer agent other than Nasdaq or its employee, or by a registrar other than Nasdaq or its employee, any other signature on the certificate may be a facsimile. In the event that any officer, transfer agent, or registrar who has signed or whose facsimile signature has been placed upon a certificate shall cease to be such officer, transfer agent, or registrar before such certificate is issued, such certificate may be issued by Nasdaq with the same effect as if such person were such officer, transfer agent, or registrar at the date of issue.

Stock Ledger

Sec. 9.3 (a) A record of all certificates for capital stock issued by Nasdaq shall be kept by the Secretary or any other officer, employee, or agent designated by the Board. Such record shall show the name and address of the person, firm, or corporation in which certificates for capital stock are registered, the number of shares represented by each such certificate, the date of each such certificate, and in the case of certificates which have been canceled, the date of cancellation thereof.

(b) Nasdaq shall be entitled to treat the holder of record of shares of capital stock as shown on the stock ledger as the owner thereof and as the person entitled to vote such shares and to receive notice of meetings, and for all other purposes. Nasdaq shall not be bound to recognize any equitable or other claim to or interest in any share of capital stock on the part of any other person, whether or not Nasdaq shall have express or other notice thereof.

Transfers of Stock

Sec. 9.4 (a) The Board may make such rules and regulations as it may deem expedient, not inconsistent with law, the Restated Certificate of Incorporation, or these By-Laws, concerning the issuance, transfer, and registration of certificates for shares of capital stock of Nasdaq. The Board may appoint, or authorize any principal officer to appoint, one or more transfer agents or one or more transfer clerks and one or more registrars and may require all certificates for capital stock to bear the signature or signatures of any of them.

(b) Transfers of capital stock shall be made on the books of Nasdaq only upon delivery to Nasdaq or its transfer agent of: (i) a written direction of the registered holder named in the certificate or such

holder's attorney lawfully constituted in writing; (ii) the certificate for the shares of capital stock being transferred; and (iii) a written assignment of the shares of capital stock evidenced thereby.

Cancellation

Sec. 9.5 Each certificate for capital stock surrendered to Nasdaq for exchange or transfer shall be canceled and no new certificate or certificates shall be issued in exchange for any existing certificate other than pursuant to Section 9.6 until such existing certificate shall have been canceled.

Lost, Stolen, Destroyed, and Mutilated Certificates

Sec. 9.6 In the event that any certificate for shares of capital stock of Nasdaq shall be mutilated, Nasdaq shall issue a new certificate in place of such mutilated certificate. In the event that any such certificate shall be lost, stolen, or destroyed, Nasdaq may, in the discretion of the Board or a committee appointed thereby with power so to act, issue a new certificate for capital stock in the place of any such lost, stolen, or destroyed certificate. The applicant for any substituted certificate or certificates shall surrender any mutilated certificate or, in the case of any lost, stolen, or destroyed certificate, furnish satisfactory proof of such loss, theft, or destruction of such certificate and of the ownership thereof. The Board or such committee may, in its discretion, require the owner of a lost or destroyed certificate, or the owner's representatives, to furnish to Nasdaq a bond with an acceptable surety or sureties and in such sum as will be sufficient to indemnify Nasdaq against any claim that may be made against it on account of the lost, stolen, or destroyed certificate or the issuance of such new certificate. A new certificate may be issued without requiring a bond when, in the judgment of the Board, it is proper to do so.

Fixing of Record Date

Sec. 9.7 The Board may fix a record date in accordance with Delaware law.

ARTICLE X

MISCELLANEOUS PROVISIONS

Corporate Seal

Sec. 10.1 The seal of Nasdaq shall be circular in form and shall bear, in addition to any other emblem or device approved by the Board, the name of Nasdaq, the year of its incorporation, and the words "Corporate Seal" and "Delaware." The seal may be used by causing it to be affixed or impressed, or a facsimile thereof may be reproduced or otherwise used in such manner as the Board may determine.

Fiscal Year

Sec. 10.2 The fiscal year of Nasdaq shall begin the 1st day of January in each year, or such other month as the Board may determine by resolution.

Waiver of Notice

Sec. 10.3 (a) Whenever notice is required to be given by law, the Restated Certificate of Incorporation, or these By-Laws, a waiver thereof by the person or persons entitled to such notice, whether before or after the time stated therein, shall be deemed equivalent to notice. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the stockholders, Directors, or members of a committee of Directors need be specified in any waiver of notice.

(b) Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened.

Execution of Instruments, Contracts, Etc.

Sec. 10.4 (a) All checks, drafts, bills of exchange, notes, or other obligations or orders for the payment of money shall be signed in the name of Nasdaq by such officer or officers or person or persons as the Board, or a duly authorized committee thereof, may from time to time designate. Except as otherwise provided by law, the Board, any committee given specific authority in the premises by the Board, or any committee given authority to exercise generally the powers of the Board during intervals between meetings of the Board, may authorize any officer, employee, or agent, in the name of and on behalf of Nasdaq, to enter into or execute and deliver deeds, bonds, mortgages, contracts, and other obligations or instruments, and such authority may be general or confined to specific instances.

(b) All applications, written instruments, and papers required by any department of the United States Government or by any state, county, municipal, or other governmental authority, may be executed in the name of Nasdaq by any principal officer or subordinate officer of Nasdaq, or, to the extent designated for such purpose from time to time by the Board, by an employee or agent of Nasdaq. Such designation may contain the power to substitute, in the discretion of the person named, one or more other persons.

Sec. 10.5 Any records maintained by Nasdaq in the regular course of business, including its stock ledger, books of account, and minute books, may be kept on, or be in the form of, magnetic tape, computer disk, or any other information storage device, provided that the records so kept can be converted into clearly legible form within a reasonable time.

ARTICLE XI

AMENDMENTS; EMERGENCY BY-LAWS

By Stockholders

Sec. 11.1 These By-Laws may be altered, amended, or repealed, or new By-Laws may be adopted, at any meeting of the stockholders by the affirmative vote of the holders of at least 66 2/3 percent of the voting power of the then outstanding stock entitled to vote, voting together as a single class, provided that, in the case of a special meeting, notice that an amendment is to be considered and acted upon shall be inserted in the notice or waiver of notice of said meeting.

By Directors

Sec. 11.2 To the extent permitted by the Restated Certificate of Incorporation, these By-Laws may be altered, amended, or repealed, or new By-Laws may be adopted, at any regular or special meeting of the Board by a resolution adopted by a vote of a majority of the whole Board.

Emergency By-Laws

Sec. 11.3 The Board may adopt emergency By-Laws subject to repeal or change by action of the stockholders which shall, notwithstanding any different provision of law, the Restated Certificate of Incorporation, or these By-Laws, be operative during any emergency resulting from any nuclear or atomic disaster, an attack on the United States or on a locality in which Nasdaq conducts its business or customarily holds meetings of the Board or the stockholders, any catastrophe, or other emergency condition, as a result of which a quorum of the Board or a committee thereof cannot readily be convened for action. Such emergency By-Laws may make any provision that may be practicable and necessary under the circumstances of the emergency.

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

1735 K STREET, NORTHWEST
 WASHINGTON, D.C. 20006-1506
 (202) 728-8100

JOSEPH R. HARDIMAN
 PRESIDENT

PERSONAL AND CONFIDENTIAL

May 31, 1996

Mr. Alfred R. Berkeley, III
 301 Northfield Place
 Baltimore, MD 21210

Dear Al:

At a special meeting on May 9, 1996, the Board of Directors of The Nasdaq Stock Market, Inc. (Nasdaq) authorized me to extend to you an offer to become the President of Nasdaq. The responsibilities of the President are set forth in the enclosed Position Description (Enclosure 1). In this position, you will report directly to the Nasdaq Board, of which you will be a voting member, and to me as the Chief Executive Officer of the parent, NASD, Inc. Your election to this position must be ratified by the NASD Board which I expect to formally take place on June 27, 1996. You can only be removed from this position by action of the Nasdaq or NASD Boards, the latter only in exceptional circumstances.

Your compensation and benefits will be as set forth on the enclosed schedule entitled "Alfred R. Berkeley Compensation and Benefit Package" (Enclosure 2). You will be eligible for participation in our Incentive Compensation Plan on the date you are formally employed and you are guaranteed payment of the target incentive levels of 50% of your salary for the first two calendar years of employment. Your salary will be reviewed at the beginning of each calendar year by the Management Compensation Committee of the NASD Board along with the salaries of the other executives of the NASD, NASDR and Nasdaq. The annual review may or may not result in a salary adjustment.

Your employment will begin on May 31, 1996. If your employment is terminated by the Nasdaq or the NASD Boards without cause, the NASD will take the necessary action to require payment by Nasdaq to you of your salary then in effect for a period of 24 months following the date of termination. The term "cause" shall mean your conviction of a felony or your willful commission of acts of dishonesty, fraud or deceit in connection with your position.

You shall be entitled to four weeks of annual vacation and in all other respects you shall be subject to our normal employee vacation and sick leave policy. Obviously, we will reimburse you for reasonable expenses incurred in furtherance of the business of Nasdaq or the NASD when appropriately documented just as we do for other executives. In addition, Nasdaq will reimburse you for fees and dues necessary to maintain any licenses or privileges held by you or any memberships in professional associations such as bar associations. We will also reimburse you for your initiation fee and annual dues in a lunch or dinner club of your choice that may be necessary or useful in the performance of your responsibilities as President of Nasdaq.

Lastly, you will find attached as Enclosure 3 a copy of an NASD Board Resolution, adopted on March 18, 1983 and still in effect, setting forth the indemnification policy for the NASD and its subsidiaries. We also include in the Nasdaq Certificate of Incorporation language permitting the broadest possible indemnification under Delaware law. For your information, we have in effect a Directors and Officers liability policy in the amount of \$10 million, with deductibles (all of which are covered under our Resolution).

For purposes of this letter agreement, the enclosures are incorporated by reference.

We are truly excited about your joining our senior management team as we prepare to lead The Nasdaq Stock Market and the NASD Regulation onto a new plateau that will serve as the springboard for success of the enterprise into the next decade.

Sincerely,

/s/ Joseph R. Hardiman

ALFRED R. BERKELEY, III
 COMPENSATION AND BENEFIT PACKAGE

Compensation

Target

Maximum

Base Salary	\$ 500,000		\$ 500,000	
Incentive Compensation				
o Corporate (50%) ¹				
Paid Currently	200,000	(40%)	300,000	(60%)
Deferred for 2 yrs. ²	50,000	(10%)	75,000	(15%)
o Deferred Match ³				
Total Compensation	\$ 750,000		\$ 875,000	
Incentive Compensation as % of Base	50%		75.0%	

Benefits

- o Qualified Retirement Plan (defined benefit - employer paid) - Exhibit A
- o Supplemental Executive Retirement Plan (defined benefit - employer paid) - Exhibit B
- o 401(k) Savings Plan - 50% company match up to first 6% contributed by employee (discretionary additional match of 50% upon Board approval) - Exhibit C
- o Health and Medical Plans
- o Flexible Spending Account

- 1 Earned if annual corporate goals are met or exceeded.
- 2 20% of earned incentive compensation is deferred for two (2) years -- ultimate payout is conditioned on continued service, except in the event of death, disability, retirement or termination without cause.
- 3 A match, up to 50% of the deferred amount, may be awarded depending on the attainment of 3-year Corporate Strategic Plan objectives.

EXHIBIT A

NASD EMPLOYEES RETIREMENT PLAN

OBJECTIVE

The NASD retirement plan is designed to provide retirement income based on the average base salary for the highest five consecutive years of employment (final average salary) and years of service. All contributions to the Plan, which include funding for administration expenses, are paid by the Association.

These are some important features of the Plan:

- o accrued benefits vest, that is, are non-forfeitable after five years of service;
- o early retirement can be elected as early as age 55 with a reduced retirement income;
- o non-contributory defined benefit plan.

BENEFIT FORMULA

Normal retirement at age 65 with benefit computed as follows:

1.25% per year of service (maximum 30 years) times final average salary, plus .6267% per year times final average salary exceeding social security covered compensation.

Election options - Joint and Survivor annuity or Lump Sum benefit, certain, or certain and life.

Deferred retirement - Employment with the NASD past the Normal Retirement Age of 65 will delay benefits until actual retirement. Benefits are determined as of the actual retirement date.

Early retirement - After age 55 and ten or more years of service the accrued benefit would be reduced 3% per year up to age 61 and is unreduced for ages 62 through 64.

Disability retirement - Employees who are totally and permanently disabled before the Normal Retirement Age of 65, regardless of the length of service, will receive a monthly retirement benefit at age 65 that is based on the assumption that employment continued from the beginning of the disability until age 65 at the salary rate in effect at the beginning of the disability.

EXHIBIT B

SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN

Comp Base	Base salary + 1/3 of incentive compensation
Final Average Comp (FAC)	Highest 60 consecutive months immediately preceding retirement
Normal Retirement Calculation	
- - Maximum	60% of FAC
- - Offset	Qualified plan benefit
Early Retirement Calculation	After age 55 and vested
- - Reductions	No reduction after age 62. 3% per year between 55 and 62
Vesting	Age 55 plus 10 years
Death Benefit	Death benefit in lieu of above benefits equal to 3 times base pay payable in 120 monthly installments
Funding	Paid from general assets of Nasdaq

Exhibit C

SAVINGS PLAN (401-K)

OBJECTIVE

- o Offered to employees as a means of accumulating savings for retirement, reducing federal income taxes, and deferring taxes on investment earnings.

ELIGIBILITY

- o Employees are eligible to contribute to the plan, through payroll deductions, immediately upon employment. However, matching employer contributions are not made until 12 consecutive months of employment, with at least 1,000 hours of service during that time.

CONTRIBUTIONS AND MATCHING

- o NASD contributes \$.50 for every dollar saved up to 6 percent of the employee's salary.
- o NASD may, at its discretion, contribute up to an additional \$.50 for every dollar saved up to 6 percent of the employee's salary at the end of the year based on the performance of the organization as determined by management and approved by the Management Compensation/Development Committee.
- o Two types of employee contributions to the plan:
 - Regular - can be pre-tax, after-tax or both. Contributions can range from 1 to 6 percent of base salary. These contributions are matched by the NASD at 50%, with up to an additional 50% discretionary match.
 - Voluntary - pre-tax or after-tax or both. Contributions above 6 percent are not matched by the NASD.
- o The plan limits contributions (regular and voluntary combined) to 17 percent of base salary. Highly compensated participants as defined by the IRS are further limited by anti-discrimination rules which currently allow a maximum of 9%.

VESTING

- o Employee contributions vest immediately. Employer contributions are vested after three years of service.

INVESTMENT OPTIONS

- o Investments are managed by the Vanguard Group of Investment Companies. Employees may select from 12 investment options to allocate their monies (6 equity, 3 fixed income, 2 balanced, 1 money market):
 - Money Market Reserves - Federal Portfolio
 - Investment Contract Trust
 - Bond Index Fund
 - Index Trust - 500 Portfolio
 - Windsor II
 - Trustees' Equity Fund - International Portfolio
 - Morgan Growth Fund
 - Explorer Fund
 - Short Term Corporate Portfolio
 - STAR Fund
 - Wellington Fund

o Market value of assets at December 31, 1994 - \$51,974,000

DISTRIBUTIONS

o In-service withdrawals of employee after-tax contributions are permitted for any reason, with certain restrictions, and withdrawals of pre-tax contributions are permitted in the case of hardship.

o The Plan contains a loan feature which allows employees to borrow a portion of their pre-tax balances.

o Plan benefits are paid to employees at retirement or termination of NASD employment.

S U B S I D I A R I E S

1. Nasdaq Tools, Inc. (incorporated in Delaware)
2. Quadsan Enterprises Inc. (incorporated in Delaware)
3. Nasdaq Global Holdings (incorporated in Switzerland)
 - o Nasdaq Global Technology, Ltd. (incorporated in Bermuda)
 - o Nasdaq International Ltd. (incorporated in United Kingdom)
 - o Nasdaq Ltda (incorporated in Brazil)
 - o Nasdaq Europe Planning Company Ltd. (incorporated in United Kingdom)
 - o Nasdaq Japan, Inc. (incorporated in Japan)
 - o Nasdaq Europe S.A./N.V. (incorporated in Belgium)
 - o IndigoMarkets Ltd. (incorporated in Bermuda)
 - o IndigoMarkets India Private Ltd. (organized in India)
4. Nasdaq Financial Products Services, Inc. (incorporated in Delaware)
5. Nasdaq International Market Initiatives, Inc. (incorporated in Delaware)
6. Nasdaq Canada, Inc. (incorporated in Canada)
7. Nasdaq Educational Foundation Inc. (formed in Delaware)
8. Nasdaq-BIOS R&D Joint Venture (formed in Delaware)