NASDAQ STOCK MARKET INC
Form 424B5
February 10, 2006
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Filed Pursuant to Rule 424(b)(5)

Registration No. 333-131373

A filing fee of $68,393.00, calculated in accordance with Rule 457(r), has been transmitted to the SEC in connection with the securities offered by means of this prospectus supplement. This fee includes the common stock issuable upon the exercise of the underwriter's over-allotment option.

PROSPECTUS SUPPLEMENT

(To prospectus dated January 30, 2006)

13,895,229 Shares

Common Stock

This is a public offering of our common stock. The Nasdaq Stock Market, Inc. is selling 7,000,000 shares and our stockholders are selling 6,895,229 shares of Nasdaq common stock. We will not receive any proceeds from the sale of shares offered by the selling stockholders.

The shares of our common stock are quoted on The Nasdaq National Market under the symbol NDAQ. On February 9, 2006, the last sale price of our shares as reported on The Nasdaq National Market was $40.27 per share.

We have agreed to sell up to approximately 206,700 shares in this offering in a directed share program to members of National Association of Securities Dealers, Inc. (NASD) under a prior agreement between us and NASD.

Investing in our common stock involves risks that are described in the Risk Factors section beginning on page S-14 of this prospectus supplement.

	Per share	Total
Public offering price	$40.00	$ 555,809,160
Underwriting discount	$1.60	$22,232,366
Proceeds, before expenses, to us[1]	$38.40	$ 268,634,640
Proceeds, before expenses, to the selling stockholders[1]	$38.40	$ 264,611,434

(1) We will pay the underwriting discount for the shares that we sell. NASD will pay the underwriting discount for shares being sold by selling stockholders (including shares sold by NASD), and accordingly any such selling stockholder (other than NASD) will receive the public offering price. NASD and Nasdaq will pay the underwriting discount for the shares we expect to sell under the directed share program and purchasers under the directed share program will pay the public offering price less the underwriting discount.

The underwriters may also purchase up to an additional 1,042,142 shares from us and up to an additional 1,042,142 from NASD, at the public offering price, less the underwriting discount, within 30 days from the date of this prospectus supplement, to cover overallotments.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The shares will be ready for delivery on or about February 15, 2006.

Merrill Lynch & Co. **JPMorgan** **Credit Suisse**

Thomas Weisel Partners LLC

Citigroup

Friedman Billings Ramsey

Keefe, Bruyette & Woods

Sandler O Neill & Partners, L.P.

The date of this prospectus supplement is February 9, 2006.

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Prospectus Supplement

Prospectus

You should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. We have not, the selling stockholders have not, and the underwriters have not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, the selling stockholders are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer and sale is not permitted. You should assume that the information appearing in this prospectus supplement and the accompanying prospectus is accurate only as of their respective dates. Our business, financial condition, results of operations and prospects may have changed since those dates.

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About This Prospectus Supplement and the Accompanying Prospectus

This prospectus supplement and the accompanying prospectus include market share and industry data that we obtained from industry publications and surveys, reports of governmental agencies and internal company surveys. Industry publications and surveys generally state that the information they contain has been obtained from sources believed to be reliable, but we cannot assure you that this information is accurate or complete. We have not independently verified any of the data from third-party sources nor have we ascertained the underlying economic assumptions relied upon therein. Statements as to our market position are based on the most currently available market data. For market comparison purposes, data in this prospectus supplement and the accompanying prospectus for initial public offerings or IPOs of companies in the United States is based on data provided by Thomson Financial, which does not include best efforts underwritings and Nasdaq has chosen to exclude closed-end funds, therefore, may not be comparable to other publicly-available initial public offering data. Data in this prospectus supplement and the accompanying prospectus for secondary offerings is also based on data provided by Thomson Financial. Data in this prospectus supplement and the accompanying prospectus for new listings of equity securities on The Nasdaq Stock Market is based on data generated internally by Nasdaq, which includes best efforts underwritings. Data in this prospectus supplement and the accompanying prospectus for trading activity by average daily share volume of the QQQ is provided by FactSet Research Systems, Inc. and Bloomberg L.P. While we are not aware of any misstatements regarding industry data presented herein, our estimates involve risks and uncertainties and are subject to change based on various factors, including those discussed under the heading Risk Factors in this prospectus supplement.

Trademarks

ACES®, Market Intelligence Desk®, MarketSite®, Nasdaq®, Nasdaq-100®, Nasdaq-100 Index®, Nasdaq-100 Index Tracking Stock®, Nasdaq Biotechnology Index®, Nasdaq Canada®, Nasdaq Composite®, Nasdaq National Market®, Nasdaq Workstation II®, QQQ®, SuperMontage®, The Nasdaq Stock Market® and Nasdaq Europe Planning® are registered service/trademarks of The Nasdaq Stock Market, Inc. Nasdaq International℠, Nasdaq Europe℠, Nasdaq Japan℠, Nasdaq Global℠, Nasdaq International Market Initiatives℠, NIMI℠, Automated Confirmation Transaction Service℠, ACT℠, CAES℠, Level 1 Service℠, Mutual Fund Quotation Service℠ (MFQS℠), Nasdaq Corporate Services Network℠, Nasdaq Market Center℠, Nasdaq Quotation Dissemination Service℠ (NQDS℠), The Nasdaq Capital Market℠, INET℠ and the logos identifying Nasdaq indexes and products are service/trademarks of The Nasdaq Stock Market, Inc.

Forward Looking Statements

The SEC encourages companies to disclose forward-looking information so that investors can better understand a company s future prospects and make informed investment decisions. This prospectus supplement and the documents incorporated by reference herein contain these types of statements. We make these statements directly in this prospectus supplement and in the documents filed with the SEC that are incorporated by reference in this prospectus. Words such as anticipates, estimates, expects, projects, intends, plans, believes and words or terms of sim substance used in connection with any discussion of future operating results or financial performance identify forward-looking statements.

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

- our operating results may be lower than expected;
- our ability to implement our strategic initiatives and any consequences from our pursuit of our corporate strategy;

competition, economic, political and market conditions and fluctuations, including interest rate risk;

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- government and industry regulation; or

- adverse changes that may occur in the securities markets generally.

In connection with our acquisition of Instinet Group Incorporated, or Instinet, owner and operator of the INET ECN, and the concurrent sale of Instinet s institutional brokerage business to an affiliate of Silver Lake Partners, L.P., factors that may cause actual results to differ materially from those contemplated by such forward-looking statements include, but are not limited to, the following: (i) expected cost savings and other synergies from the acquisition cannot be fully realized or realized within the expected time frame; (ii) costs or difficulties related to the integration of the INET ECN and/or the separation and sale of Instinet s institutional brokerage business are greater than expected; (iii) revenues following the acquisition are lower than expected; (iv) regulatory changes occur that affect the integration; and (v) general economic conditions are less favorable than expected.

Most of these factors are difficult to predict accurately and are generally beyond our control. You should consider the uncertainty and any risk resulting from such uncertainty in connection with any forward-looking statements that may be made herein. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this prospectus supplement. Readers should carefully review this prospectus supplement and the accompanying prospectus in their entirety, including, but not limited to, our Management s Discussion and Analysis of Financial Condition and Results of Operation, financial statements and the accompanying notes thereto, and the pro forma financial statements and accompanying notes thereto, all of which are incorporated by reference, and the risks described in Risk Factors. Except for our ongoing obligations to disclose material information under the federal securities laws, we undertake no obligation to release publicly any revisions to any forward-looking statements, to report events or to report the occurrence of unanticipated events. For any forward-looking statements contained in any document, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

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PROSPECTUS SUPPLEMENT SUMMARY

This summary highlights selected information related to our business. Since it is a summary, this section may not contain all the information that you should consider before investing in our common stock. You should carefully read the entire prospectus supplement, the accompanying prospectus and the documents incorporated by reference herein and therein, including the Risk Factors section. You should also read our Management s Discussion and Analysis of Financial Condition and Results of Operation, financial statements and the accompanying notes and the pro forma financial statements and accompanying notes, all of which are incorporated by reference, before making an investment decision.

Overview

We are a leading provider of securities listing, trading and information products and services. Our revenue sources are diverse and include revenues from transaction services, market data products and services, listing fees and financial products. We operate The Nasdaq Stock Market, the largest electronic equity securities market in the United States, both in terms of number of listed companies and traded share volume. As of December 31, 2005, we were home to over 3,200 listed companies with a combined market capitalization of over $3.8 trillion. We also operate The Nasdaq Market Center, which provides market participants with the ability to access, process, display and integrate orders and quotes for stocks listed on The Nasdaq Stock Market and other national securities exchanges. Transactions involving 363.3 billion equity securities were executed on or reported to our systems in 2005, 14% higher than the 319.1 billion in 2004. We manage, operate and provide our products and services in two business segments, our Issuer Services segment and our Market Services segment.

On December 8, 2005, we completed our acquisition of the INET ECN. We acquired INET because we believe it will enable us to enhance our premier electronic equities market and will provide superior execution opportunities for our customers. We have begun the process of integrating the INET trading platform with our operations. In the fourth quarter of 2006, we expect to complete the migration of The Nasdaq Market Center to INET s high performance and low cost trading platform. We believe this will enable us to compete more effectively for trade executions in NYSE- and Amex-listed securities and to deliver increased capabilities demanded by our customers. By the end of 2006, we believe that the INET acquisition will begin to accrete to stockholders, primarily as a result of technology cost savings and other synergies, including cost savings from operating a combined trading platform, reduced clearing and settlement expenses, reduced occupancy, compensation and benefits costs and increased market data revenues. As a result of the INET acquisition, we expect to be able to compete more effectively against higher cost, less electronic hybrid exchanges. We expect that a successful migration to the INET platform will result in an increase in the number and range of buy orders and sell orders in non-Nasdaq-listed securities quoted through The Nasdaq Market Center. This migration may also enhance our ability to compete against these exchanges for the listings of securities. We also believe the additional liquidity arising from the INET acquisition will lead to additional trade execution and trade reporting revenue.

We believe that our industry is entering a period of transition across global markets for various financial products. We believe that our past acquisition experience positions us to strategically enter new markets that complement our core competencies, build upon the Nasdaq brand name and advance our technology both in the United States and abroad. Furthermore, we believe our successful integration of Brut s electronic trading systems enhances our ability to successfully integrate INET and extract cost savings through the elimination of corporate and systems redundancies.

Issuer Services. Our Issuer Services segment includes our securities listings business and our financial products business. The companies listed on The Nasdaq Stock Market represent a diverse array of industries, including information technology, financial services, healthcare, consumer products and industrials. During 2005, 126 initial public offerings listed on The Nasdaq Stock Market, raising approximately $12.3 billion in

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equity capital. During this period, Nasdaq had 55 more IPOs than our nearest competitor. In each of the past 21 years, Nasdaq has secured more IPOs than any of its competitors.

We also develop and license financial products and associated derivatives, including the QQQ, which is an exchange traded fund, or ETF, based on the Nasdaq-100 Index. The Nasdaq-listed QQQ is one of the most actively traded ETFs in the world and the most actively traded listed equity security in the United States. We have also introduced financial products based on other Nasdaq indices, including the Nasdaq Composite Index and the Nasdaq Biotechnology Index. We believe that these products leverage, extend and enhance the Nasdaq brand. In addition, we generate revenues by licensing and listing third-party structured products and third-party sponsored ETFs.

Market Services. Our Market Services segment includes our transaction-based business and our market information services business. The Nasdaq Market Center is our transaction-based platform that provides our market participants with the ability to access, process, display and integrate orders and quotes and enabled our customers to execute trades in over 7,700 equity securities as of December 31, 2005. The Nasdaq Market Center allows us to route and execute buy and sell orders as well as report transactions for Nasdaq-, NYSE- and Amex-listed securities, providing fee-based revenues. Average daily share volume in Nasdaq-listed securities was 1.81 billion shares in 2004 and 1.80 billion shares in 2005.

We also generate revenues by providing varying levels of quote and trade information to market participants and to data vendors, who in turn sell subscriptions for this information to the public. Our systems enable vendors to gain direct access to our detailed order data, index information, mutual fund pricing information and corporate action information on Nasdaq-listed securities.

INET Acquisition and Integration

We expect to complete the integration of INET in the fourth quarter of 2006. We believe the integration will significantly improve our efficiency and technology and allow us to compete more effectively in other markets. We also believe that the integration of INET will result in cost and revenue synergies. By the end of 2006, we believe that the INET acquisition will begin to accrete to stockholders, primarily as a result of technology cost savings and other synergies, including cost savings from operating a combined trading platform, reduced clearing and settlement expenses, reduced occupancy, compensation and benefits costs and increased market data revenues.

Key benefits that we expect from the INET acquisition include:

Lower cost trading system. We plan to migrate The Nasdaq Market Center to INET s technologically advanced, fast, reliable and lower cost trading system in the fourth quarter of 2006. This migration to INET s existing trading system will accelerate our transition to a lower cost system.

Highly scalable technology platform. The INET platform is readily positioned to take advantage of new rules, such as Regulation NMS, that favor automated trading systems over traditional, manual securities exchanges. We also believe that our market model, together with INET s tested and market accepted technology, will successfully compete against other proposed, but untested, hybrid trading systems that combine an existing manual trading floor with a new electronic trading platform. In addition, because the INET platform is highly scalable, we believe that we are well-positioned to handle increased transaction volumes at low incremental costs.

Reduced expenses. We anticipate incurring pre-tax charges of between $60.0 million and $70.0 million in 2006 principally related to the INET acquisition and also related to our continuing efforts to reduce operating expenses and improve the efficiency of our operations. We expect to have reduced

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sales, administrative and overhead expenses after we eliminate significant overlapping operations and headcount.

Increased liquidity for securities listed on Nasdaq, NYSE and Amex. Under Regulation NMS, all trades must be executed at the best available price. Market participants are more likely to get the best price when their orders are exposed to a larger number of buyers and sellers. The INET acquisition will create deeper pools of liquidity for NYSE- and Amex-listed securities as well as Nasdaq-listed securities. This increased liquidity should result in reduced volatility in stock prices and increase the likelihood that Nasdaq will have the best price and depth for buyers and sellers. We believe that the depth and liquidity that we offer benefits our existing customers as it attracts additional customers, who, in turn, provide further liquidity for all our customers. We believe that we have a significant opportunity to capture additional trading volume in non-Nasdaq-listed securities.

Increased market data fees. Before the acquisition, INET reported its trades in Nasdaq-listed securities to a regional exchange and we were required to share a portion of our data fee revenue related to those trades with the regional exchange. INET recently began reporting all trades to us, therefore, we no longer are required to share the data fee revenue from INET.

Reduced clearing and settlement costs. We expect that consolidation of transaction activity from The Nasdaq Market Center and INET onto one platform will generate savings on clearing and settlement costs.

Competitive advantage on listings. We expect the INET acquisition to enhance our ability to compete for the listing of securities. We believe that companies consider the depth, liquidity and trading patterns in deciding where to list their securities. By creating the largest single alternative pool of liquidity for non-Nasdaq-listed securities through the INET acquisition, we hope to encourage additional companies to switch their listings to The Nasdaq Stock Market.

Greater market information based on increased liquidity. We expect increased liquidity as a result of the INET acquisition will generate a broader set of market information that we can use to create new and more comprehensive market data products.

Cost Reductions

We have taken significant steps to grow our business and enhance our competitive position, including developing fast, reliable and scalable systems, focusing on maintaining an efficient cost structure, designing a competitive pricing strategy for our products and services consistent with our regulatory obligations and pursuing acquisitions designed to yield cost savings through technology and corporate synergies. We have successfully reduced technology costs, eliminated non-core products, scaled back our workforce and consolidated our real estate facilities and operations. We continue to migrate our technology operations to fewer, scalable, less expensive non-proprietary platforms. The INET integration will accelerate our migration to a low-cost trading platform and will result in significant additional operating synergies.

As a result of our cost reduction steps, we reduced our total direct expenses from continuing operations from $585.1 million in 2002 to $430.8 million in 2004, or approximately 26.4%. During the first nine months of 2005, we have further reduced total direct expenses from continuing operations by approximately $45.1 million or 14.1%, from $320.7 million for the first nine months of 2004 to $275.6 million. During 2004, we incurred incremental pre-tax expenses of approximately $62.6 million in connection with taking actions to improve our operational efficiency. We incurred $37.1 million and $17.9 million of similar expenses for the first nine months of 2004 and 2005, respectively. In addition, 2005 results include a $7.4 million loss recorded on the restructuring of the $240 million subordinated convertible notes in connection with the financing of the INET acquisition.

We believe that our actions position us to compete aggressively in all aspects of our business, to improve profits and to grow in future periods. We plan to continue to rationalize our business activities and generate additional cost savings by managing our expense base and aggressively pursuing additional operating efficiencies once we complete the integration of INET. We believe that the INET integration will provide additional opportunities for cost reductions and synergies.

Our Competitive Strengths

We believe our principal competitive strengths include:

Highly Liquid and Efficient Market. We offer our customers a highly liquid and efficient market to execute transactions. Trade executions by The Nasdaq Market Center are extremely fast, typically within 0.3 of a second. As we integrate our systems onto the INET platform, we expect our average execution speeds to become faster. We believe that our trade execution speeds are significantly faster than those offered by competing floor-based exchanges and comparable to or faster than that of many competing exchanges and ECNs. We also believe that our average trade execution fee per share is the most competitive in the industry. Further, we believe fully electronic trading could have significant speed and cost advantages to investors over trading systems that switch between automatic and slower manual trading, such as the hybrid trading systems proposed by the NYSE and Amex and may result in opportunities for us to increase our share of trading in non-Nasdaq-listed securities.

Experience in Integrating Businesses. We actively pursue strategic acquisitions and alliances to strengthen our current business, enter new markets that complement our core competencies, build upon the Nasdaq brand name and advance our technology. Since the Brut acquisition, we eliminated corporate redundancies, created a virtual combined order book with The Nasdaq Market Center and extended a number of Brut technology enhancements to our trading platform. We believe that our experience in combining electronic trading systems enhances our ability to successfully integrate INET and extract cost savings through the elimination of corporate and systems redundancies.

Strong Brand and Reputation. We believe that we have built a trusted brand name among market participants, institutions and public companies. The Nasdaq Stock Market is recognized as a premier listing venue for stock-based equity securities. Some of the companies that list on our market include Ameritrade, Amgen, Apple, Comcast, Dell, Google, Intel, Microsoft, Staples, Starbucks and Yahoo!. Additionally, in 2005, Cadence Design Systems and Charles Schwab switched their listings to Nasdaq from the NYSE. In 2005, Sears switched its listing to Nasdaq from the NYSE as a result of its merger with Kmart. Our marketing, promotional and public relations activities are designed to further strengthen our brand name and differentiate us as the market for growth companies and industry leaders and to promote the unique services available to our listed companies.

Effective Use of Technology and Innovation. We believe that our transaction speed throughput and system reliability provides us with a competitive advantage, which will be enhanced as we migrate to the INET platform. We expect to migrate The Nasdaq Market Center to INET s technologically advanced, fast, reliable and lower cost trading system in the fourth quarter of 2006. We also leverage our technology to provide innovative services that address the needs of the marketplace such as the Opening Cross and Closing Cross. The Opening Cross and Closing Cross further establish us as the reference point for trading in Nasdaq-listed securities, which has drawn liquidity to our market at the opening and closing times and has the potential to draw additional liquidity to our market during the trading day. We intend to introduce the Nasdaq intraday cross in 2006, which will provide customers and investors with a highly efficient and accurate single price at specific times during the trading day, resulting in an enhanced ability to discover larger pools of liquidity. The introduction of the intraday cross will serve as a further illustration of our advanced technology and our position as an industry innovator. We believe that our current order technology allows market participants to utilize a number of complex, self-executing order types. We further believe the NYSE s proposed hybrid trading system will have limited, self-executing order technology that will continue to require a floor broker to execute more complex order types.

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Diverse and Recurring Sources of Revenue. Our revenue sources are diverse and include revenues from transaction services, market data product and services, listing fees and financial products. For the first nine months of 2005, we derived 73.1% of our revenues from our Market Services segment and 26.9% of our revenues from our Issuer Services segment. For the first nine months of 2005, we derived 56.9% of our gross margin from our Market Services segment and 43.1% of our gross margin from our Issuers Services segment. Following our acquisition of INET, we expect that our gross margins from Market Services will grow relative to our Issuers Services segment. Our Issuer Services segment provides us with recurring revenue streams in the form of listing fees from our approximately 3,200 issuers, and licensing fees for products such as those based on the Nasdaq-100 Index, including QQQ. Our Market Services segment delivers real-time quote and trade data to investors through our extensive network of vendors, including recurring revenues from market data products and services. Following the integration of INET, we will remain a company with diverse revenue streams where the majority of our revenue will be derived from recurring revenue sources not dependent on daily trading volume, including revenues from issuer fees, market data subscription fees, port and connection fees and certain licensing fees.

Strong and Effective Regulation. We are charged by the U.S. Securities and Exchange Commission, or the SEC, and U.S. securities laws with maintaining a fair and orderly market for the benefit of investors. We work to fulfill this obligation in several ways. We have arranged with NASD, a self-regulatory organization with over 60 years of experience, to provide regulatory oversight that is separate from our market operations. Additionally, we operate a real-time market surveillance program to quickly identify problems for referral to NASD. We also maintain a compliance-monitoring and enforcement program with respect to our requirements for initial and continued listing, including all our corporate governance listing standards. We believe that our reputation for corporate governance and regulatory integrity benefits investors, strengthens the Nasdaq brand and attracts companies seeking to list their stock as part of their initial public offerings. The INET acquisition will expand the regulatory protections of our market model to INET s operations.

Strong and Innovative Management Team. Our strong and dedicated management team, led by President and Chief Executive Officer Robert Greifeld, has extensive experience in equity markets and technology and has been involved in numerous acquisitions within the financial technology and financial services industries. Our nine executive officers have an aggregate of approximately 160 years of experience in the financial services industry. Through their leadership, we have successfully focused our business and rapidly enhanced our competitive position. We believe our management team has demonstrated an ability to innovate and respond effectively to market opportunities.

Our Growth Strategy

We intend to grow our business by employing the following strategies:

Continue to Enhance our Competitive Position. We are committed to continuing to streamline and enhance our systems and to developing new proprietary data products with fast time-to-market and flexible formats. Our competitive pricing strategy, which provides volume discounts for high-volume users of our trade execution services, encourages large market participants to use The Nasdaq Market Center. We believe that our average trade execution fee per share is the most competitive in the industry.

We also believe that the technology synergies we expect to derive from the INET acquisition will enable us to maintain our low-cost pricing structure and aggressively compete in trading non-Nasdaq-listed securities and that our fast electronic trading systems may take market share from the slower, more expensive floor-based exchanges and hybrid exchanges.

We are continuously reviewing our operations to identify additional opportunities for cost reduction consistent with our regulatory obligations.

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In addition, we believe that the recently adopted Regulation NMS may have some positive implications for us. We believe that we will not incur material operating or development costs in bringing our systems into compliance with Regulation NMS. We believe that this contrasts with some of our floor-based competitors who may be required to incur costs and risks in creating new hybrid trading systems. We also believe that provisions in Regulation NMS that protect orders displayed on electronic execution systems by prohibiting executions at inferior prices by any market, exchange or broker/dealer may force orders to be routed to alternative pools of liquidity such as Nasdaq. Additionally, we believe increased electronic trading in listed securities will result in increased average daily trading volumes as trading becomes fully automated.

Expand Our Leadership in the Listings Business. We intend to aggressively compete for new listings to capture a substantial portion of initial public offerings. Of the 241 IPOs on U.S. equity markets during 2004, 148, or 61%, chose to list on The Nasdaq Stock Market, raising approximately $15 billion in equity capital. Of the 213 IPOs on U.S. equity markets during 2005, 126, or 59%, chose to list on The Nasdaq Stock Market, raising approximately $12.3 billion in equity capital. We intend to generate additional listings by persuading companies to switch to The Nasdaq Stock Market from other listing venues because listing fees and liquidity on our market compare favorably with those of other listing venues. For example, our maximum annual listing fee of $75,000 is significantly lower than the NYSE s maximum annual listing fee of $500,000. To the extent we gain new listings (whether from IPOs or as a result of switches from another listing venue), we will increase our listings revenues and increase the number of companies listed on The Nasdaq Stock Market, and may increase our quoting, reporting and trading revenues.

Pursue Strategic Acquisitions and Alliances. Our industry is in a period of transition across markets for various financial products on a global basis. This transition is progressing rapidly, as demonstrated by the recent strategic transactions and potential transactions in our industry. We regularly explore and evaluate strategic acquisitions and alliances, including assessing rating agency and regulatory implications, among other things, both in the United States and abroad, some of which could be material. We intend to pursue acquisitions and alliances with the objective of strengthening our current business and advancing our technology. In addition, we continue to evaluate implications of strategic transactions involving other industry participants both in the United States and abroad. Our acquisitions of INET and Brut are part of this strategy. We believe that the successful integration of Brut s facilities and technology into our operations demonstrates our ability to successfully execute this strategy. While we continue to explore and evaluate strategic opportunities, which could evolve quickly, there can be no assurance whether we will enter into any strategic transactions and if so, on what terms.

Additionally, we have made and intend to continue to pursue strategic acquisitions and alliances that will allow us to provide our listed companies with additional products and services, enter new markets that complement our core competencies and build upon the Nasdaq brand name. Recent examples of these transactions include:

- our acquisition of Shareholder.com, a firm specializing in shareholder communications and investor relations intelligence services;

- our acquisition of Carpenter Moore Insurance Services, Inc., an insurance brokerage firm specializing in management liability; and

- entering into a joint venture with Reuters to form Independent Research Network, which was formed to aggregate multiple, independent research providers to procure and distribute equity research on behalf of under-covered companies to increase the market s understanding of a company s fundamental prospects.

For a discussion of risks associated with these and any other future acquisitions or strategic transactions, including risks associated with the level of required financing, the impact on our stock price and demands on management, see Risk Factors.

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***Continue to Develop Our Products and Services and Increase Our Penetration*.** We will continue to enhance our existing products and services and develop new products and services to meet the evolving demands of our customers in a dynamic marketplace while at the same time reducing our operating expenses. We will also aggressively seek to increase our share of trading in NYSE-, Amex- and Nasdaq-listed securities and broaden our customer base by enhancing The Nasdaq Market Center through competitive pricing, new product offerings (like the Opening Cross and Closing Cross) and through the INET and Brut acquisitions. These recent acquisitions have increased our liquidity, which we believe enhances the value of our market data products and the attractiveness of listing on Nasdaq.

Exchange Registration

On January 13, 2006, the SEC approved our application for registration as a national securities exchange. We believe that we will benefit from exchange registration for the following reasons:

- We will no longer have to share revenue from certain proprietary products that are currently part of an unlisted trading privileges plan, or UTP Plan, with certain other exchanges.
- NASD will no longer have voting control over us and we will be able to more clearly establish our separate identity.
- As a result of exchange registration, we will separate our regulated exchange activities from our other business operations through our adoption of a holding company corporate structure.

We will begin operating as an exchange once we satisfy certain conditions specified by the SEC. Although we expect to satisfy these conditions by the second quarter of 2006, some of these conditions require action by third parties and others require approval by the SEC. Accordingly, we can give no assurances that we will begin operating as an exchange in a timely manner.

Recent Developments

Our net income for the full year 2005 was $61.7 million and our net income for the fourth quarter 2005 was $17.1 million. Full year and fourth quarter results include the INET operations following the completion of the INET acquisition on December 8, 2005. Full year net income applicable to common stockholders was $55.1 million. Net income applicable to common stockholders for the fourth quarter 2005 was $16.1 million. The net income per share on a basic and diluted basis was $0.68 and $0.57, respectively, for the full year and $0.20 and $0.15, respectively, for the fourth quarter 2005. Gross margin (revenues less cost of revenues) for the full year 2005 was $526.0 million. Gross margin for the fourth quarter 2005 was $138.6 million. For the fourth quarter 2005, gross margin of our Market Services segment increased primarily from INET activity, increases in market share of trade executions and market subscriptions users and a change in the amount shared under the Nasdaq general revenue sharing program. Offsetting these increases were declines in the subscriber base for access services legacy products, which have been discontinued. Additionally, our Issuer Services segment revenue increased for 2005 primarily due to an increase in annual listing fees implemented in 2005 and to revenues from the Nasdaq Insurance Agency, including from the acquisition of Carpenter Moore. Total expenses were $412.3 million for the full year 2005 and $105.4 million for the fourth quarter 2005. For the full year and fourth quarter 2005, results were positively impacted by lower operating expenses from corporate-wide cost reduction programs.

Included in both 2005 full year and fourth quarter results are the following:

net pre-tax charges of $20.0 million for the full year and $2.1 million in the fourth quarter relating to our continuing efforts to reduce operating expenses and improve the efficiency of our operations, as well as fourth quarter charges associated with the acquisition and integration of INET. Excluding the

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release of the sub-lease reserve described below, total pre-tax charges taken during the full year 2005 and the fourth quarter 2005 were $32.1 million and $14.2 million, respectively. These charges include:

Workforce Reductions charges of $4.6 million in the year and $2.7 million in the fourth quarter for severance and outplacement costs.

Real Estate a net benefit of $5.4 million in the year and $9.8 million in the fourth quarter as part of our real estate consolidation plans, resulting from the fourth quarter release of a previously recorded sublease loss reserve. This includes the fourth quarter 2005 release of a $12.1 million sublease loss reserve recorded in the third quarter 2004 since this space will now be used to support INET operations.

Technology Review depreciation and amortization expenses of $20.8 million in the year and $9.2 million in the fourth quarter associated with our technology review, in which we changed the estimated useful life of some assets and changed the terms on some operating leases as we migrate to lower cost operating platforms and processes.

a one-time $7.4 million pretax charge related to our debt restructuring in the second quarter 2005.

Corporate Information

We are incorporated in Delaware. Our executive offices are located at One Liberty Plaza, New York, New York, 10006 and our telephone number is (212) 401-8700. Our web site is http://www.nasdaq.com. Information contained on our web site is not incorporated by reference into this prospectus supplement or the accompanying prospectus.

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THE OFFERING

Common stock offered by us	7,000,000 (8,042,142 if the underwriters exercise their overallotment option in full)
Common stock offered by the selling stockholders	6,895,229 (7,937,371 if the underwriters exercise their overallotment option in full)
Shares outstanding after the offering	90,148,909 (91,191,051 if the underwriters exercise their overallotment option in full)
Use of proceeds	We plan to use the proceeds of this offering to redeem our Series C cumulative preferred stock for approximately $104.7 million, including accrued and unpaid dividends and a make-whole premium, and use the remainder for general corporate purposes, including acquisitions. We will not receive any proceeds from the sale of shares by the selling stockholders (including NASD).
Risk factors	See Risk Factors and other information included in this prospectus supplement and the accompanying prospectus for a discussion of factors you should carefully consider before deciding to invest in shares of our common stock.
Listing	Our common stock currently trades on The Nasdaq National Market under the ticker symbol NDAQ.

Unless we indicate otherwise, all information in this prospectus supplement:

- assumes 83,148,909 shares outstanding as of December 31, 2005; and
- excludes:
  - up to 453,406 shares of restricted stock issued to our employees and directors pursuant to equity compensation awards;
  - up to 12,112,103 shares of common stock issuable upon the exercise of options granted to our employees and directors, of which 5,316,755 were exercisable as of December 31, 2005 at a weighted average exercise price of $10.30;
  - up to approximately 30.7 million shares of common stock issuable upon the conversion of our 3.75% convertible subordinated notes due October 2012 currently owned by Hellman & Friedman Capital Partners IV, L.P., or Hellman & Friedman, and Silver Lake Partners, or SLP, at a conversion price of $14.50 per share, which will not be freely transferable before September 8, 2006;
  - up to approximately 5.0 million shares of common stock issuable upon the exercise of warrants granted to Hellman & Friedman and SLP, at an exercise price of $14.50 per share, which will not be freely transferable before September 8, 2006; and

up to approximately 0.1 million shares of common stock issued upon the exercise of warrants granted to Softbank Corp. at an exercise price of $16.00 per share.

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At NASD s request, we have provided our stockholders who purchased warrants to purchase shares of our common stock in our 2000 and 2001 private placements and exercised those warrants by December 31, 2005 with the opportunity to sell those shares in this public offering. The number of shares which these stockholders are selling in this offering is 3,389,343. Several of the underwriters and/or their affiliates are included among these selling stockholders. See Principal and Selling Stockholders. NASD will pay the underwriting discount for shares being sold by such persons in this public offering.

We have agreed to sell up to approximately 206,700 shares in this offering through a directed share program to NASD members under the terms of a prior agreement between us and NASD. These shares will be offered at the public offering price less the underwriting discount.

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SUMMARY HISTORICAL CONSOLIDATED FINANCIAL DATA

The table below contains summary historical financial and operating data of our company. The summary historical financial data as of and for the years ended December 31, 2002, 2003 and 2004 was derived from our audited consolidated financial statements and the related notes incorporated by reference in this prospectus supplement and the accompanying prospectus. The summary historical financial data as of and for the nine months ended September 30, 2004 and 2005 was derived from our unaudited condensed consolidated financial statements and related notes incorporated by reference in this prospectus supplement and the accompanying prospectus. The summary historical financial data does not reflect the INET acquisition, which was consummated on December 8, 2005, and is reflected in our pro forma financial statements and related notes which are incorporated by reference. This historical financial and operating information may not be indicative of our future performance. In management s opinion, the unaudited information has been prepared on substantially the same basis as the consolidated financial statements and includes all adjustments (consisting of normal recurring adjustments) necessary for a fair statement of the unaudited consolidated quarterly data.

The summary financial data should be read together with our consolidated financial statements and the related notes, pro forma financial statements and related notes from our Current Report on Form 8-K/A filed with the SEC on January 27, 2006 and Management s Discussion and Analysis, which are incorporated by reference in this prospectus supplement and the accompanying prospectus:

	Year Ended December 31,			Nine Months Ended September 30,	
	2002	2003	2004	2004	2005
				(unaudited)	
	(in thousands, except per share amounts)				
Statements of Income Data[1]					
Revenues					
Market Services	$ 581,774	$ 383,715	$ 334,517	$ 218,361	$ 453,390
Issuer Services	203,969	204,186	205,821	153,935	166,748
Other	1,411	1,944	103	91	206
Total revenues	787,154	589,845	540,441	372,387	620,344
Cost of revenues[2]			55,845	9,177	232,961
Gross margin	787,154	589,845	484,596	363,210	387,383
Total direct expenses	585,131	492,745	430,825	320,716	275,629
Elimination of non-core product lines, initiatives and severance[3]		97,910			
Nasdaq Japan impairment loss	15,208	(5,000)			
Support costs from related parties, net	74,968	61,504	45,588	34,293	31,311
Total expenses	675,307	647,159	476,413	355,009	306,940
Operating income (loss)	111,847	(57,314)	8,183	8,201	80,443
Net income (loss) from continuing operations	65,021	(45,112)	1,804	3,931	44,544
(Loss) income from discontinued operations, net of tax[4]	(21,893)	(60,335)	9,558		
Net income (loss)	$ 43,128	$ (105,447)	$ 11,362	$ 3,931	$ 44,544
Preferred stock[5]:					
Loss on exchange of securities			(3,908)		

Dividends declared		(8,279)	(8,354)	(7,350)	(2,506)
Accretion of preferred stock	(9,765)		(926)		(3,047)
Net income (loss) applicable to common stockholders	$ 33,363	$ (113,726)	$ (1,826)	$ (3,419)	$ 38,991

(footnotes on following page)

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	Year Ended December 31,			Nine Months Ended September 30,	
	2002	2003	2004	2004	2005
				(unaudited)	
	(in thousands, except per share amounts)				
Basic and diluted net earnings (loss) per share:					
Basic net earnings (loss) per share:					
Continuing operations	$ 0.66	$ (0.68)	$ (0.14)	$ (0.04)	$ 0.49
Discontinued operations	(0.26)	(0.77)	0.12		
Total basic net earnings (loss) per share	$ 0.40	$ (1.45)	$ (0.02)	$ (0.04)	$ 0.49
Diluted net earnings (loss) per share:					
Continuing operations	$ 0.66	$ (0.68)	$ (0.14)	$ (0.04)	$ 0.42
Discontinued operations	(0.26)	(0.77)	0.12		
Total diluted net earnings (loss) per share	$ 0.40	$ (1.45)	$ (0.02)	$ (0.04)	$ 0.42

	As of December 31,			As of September 30,
	2002	2003	2004	2005
				(unaudited)
	(in thousands)			
Balance Sheet Data[1]				
Cash and cash equivalents and investments available-for- sale[6]	$ 423,588	$ 334,633	$ 233,099	$ 514,651
Total assets[7]	1,175,914	851,254	814,820	1,113,238
Total long-term liabilities[7][8]	636,210	452,927	449,941	648,490
Total stockholders and mezzanine equity[7]	270,872	160,696	156,563	215,417

	Year Ended December 31,			
	2002	2003	2004	2005
Other Data				
Average daily share volume in Nasdaq-listed stocks (in billions)	1.75	1.69	1.81	1.80
Percentage of share volume reported to Nasdaq systems[9]	89.3%	67.0%	51.3%	57.0%
Initial public offerings	46	54	148	126
Secondary offerings	149	190	233	222
New listings[10]	121	134	260	269
Number of listed companies[11]	3,659	3,333	3,271	3,208

(1) Certain prior period amounts have been reclassified to conform with the 2005 presentation.

(2)

Beginning with the acquisition of Brut on September 7, 2004, pursuant to the Emerging Issues Task Force (EITF) of the Financial Account Standards Board (FASB) Issue No. 99-19, Reporting Revenue Gross as a Principal versus Net as an Agent, (EITF 99-19), Nasdaq recorded execution revenues from transactions executed through Brut on a gross basis in revenues and recorded expenses such as liquidity rebate payments as cost of revenues as Brut acts as principal. Prior to the second quarter of 2005, Nasdaq s other execution revenues were reported net of liquidity rebates as Nasdaq does not act as principal. However, during and since the second quarter of 2005 under Nasdaq s new Limitation of Liability Rule, Nasdaq, subject to certain caps, provides compensation for losses due to malfunctions of the order-execution systems of The Nasdaq Market Center. Therefore, pursuant to EITF-99-19, Nasdaq has recorded all execution revenues from transactions executed through The Nasdaq Market Center on a gross basis in execution and trade reporting revenues and has recorded liquidity rebate payments as cost of revenues as Nasdaq now has certain risk associated with trade execution subject to rule limitations and caps. This rule change in fact was made on a prospective basis beginning April 1, 2005, as required under U.S. generally accepted accounting principles (GAAP). This rule change did not have a material impact on the consolidated financial position or results of operations of Nasdaq in the second or third quarters of 2005.

(3) Reflects expenses in connection with our strategic review.

(4) Reflects losses related to our disposal of Nasdaq Europe and IndigoMarkets.

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(5) The Series A Cumulative Preferred Stock carried a 7.6% dividend rate for the year commencing March 2003 and carried a 10.6% dividend rate in all subsequent years. On September 30, 2004, NASD waived a portion of the dividend for the third quarter of 2004 of $2.5 million and accepted an aggregate amount of $1.0 million (calculated based on an annual rate of 3.0%) as payment in full of the dividend for this period. On November 29, 2004, we entered into an exchange agreement with NASD pursuant to which NASD exchanged 1,338,402 shares of our Series A Cumulative Preferred Stock, representing all the outstanding shares of Series A Cumulative Preferred Stock, for 1,338,402 shares of newly issued Series C Cumulative Preferred Stock. The Series C Cumulative Preferred Stock accrues quarterly dividends at an annual rate of 3.0% for all periods until July 1, 2006 and at an annual rate of 10.6% for periods thereafter. We recognized a loss of $3.9 million in the exchange of preferred securities in retained earnings in the Condensed Consolidated Balance Sheets in the fourth quarter of 2004. This loss was due to the differences between the combined fair market value of the Series C Cumulative Preferred Stock and additional dividend ($137.7 million) versus the redemption value ($133.8 million) of the Series A Cumulative Preferred Stock. On April 21, 2005, we and NASD entered into a Stock Repurchase and Waiver Agreement whereby NASD consented to the financing used in connection with the INET acquisition. In exchange for the waiver, Nasdaq repurchased 384,932 shares of its Series C Cumulative Preferred Stock owned by NASD for approximately $40.0 million. We expect to redeem all remaining Series C Preferred Stock with a portion of the proceeds from this offering.

(6) Increase in cash and cash equivalents and investments available-for-sale at September 30, 2005, compared with December 31, 2004, was primarily due to proceeds received from the issuance of $205.0 million in convertible notes in April 2005 which was held in a restricted cash account and used in the INET acquisition.

(7) Includes continuing and discontinued operations.

(8) Increase in long-term liabilities at September 30, 2005, compared with December 31, 2004, was primarily due to the issuance of $205 million of debt in connection with the financing of the INET acquisition. Long-term liabilities does not include the Company s borrowing under a $750.0 million senior term loan facility in December 2005.

(9) Consists of all trades in Nasdaq-listed securities reported to The Nasdaq Market Center as well as INET activity since December 8, 2005.

(10) Includes initial public offerings, including those completed on a best efforts basis, and listings that switched from other listing venues.

(11) Number of listed companies as of period end.

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RISK FACTORS

An investment in our common stock is subject to risks and uncertainties. You should carefully consider the following risk factors and all other information contained and incorporated by reference in this prospectus supplement and the accompanying prospectus before deciding whether to purchase our common stock. These risks could result in the loss of all or part of your investment.

If we do not integrate INET s operations successfully, we may not realize the benefits we expect to derive from the acquisition.

We paid $934.5 million in cash to acquire the INET ECN, subject to post-closing adjustments. We also have incurred significant costs in connection with the acquisition. We have started the process of integrating INET s business with ours, and we anticipate incurring between $60.0 million and $70.0 million of pre-tax charges in 2006, principally related to the INET acquisition as well and also related to our continuing efforts to reduce operating expenses and improve the efficiency of our operations. The integration involves consolidating products, highly-complex technology, operations and administrative functions of two companies that previously operated separately. If we are unable to do this successfully, then we may not achieve the projected efficiencies, synergies and cost savings of the transaction. Key risks related to the integration include:

- Timing. The integration could take longer than planned and be subject to unanticipated difficulties and expenses. Any expenses could, particularly in the near term, offset or exceed the anticipated cost savings we expect to derive from the INET acquisition.

- Technology. We are planning to migrate our existing trading systems to INET s platform. We may face unforeseen difficulties in achieving the migration, which could impose additional obstacles to completing the migration and could result in adverse consequences to our operations or could lead to us not achieving the synergies we anticipate.

- Management diversion. The demand placed on the time of our management team in managing the INET integration may adversely affect the operation of our existing businesses.

- Loss of business relationships. We may not be able to retain business relationships with suppliers and customers of INET. In particular, when we combine the books of the Nasdaq Market Center, Brut and INET, we may lose some of the business that we enjoyed when we operated the books separately.

- Personnel losses. We may lose key INET personnel, including technology personnel.

- Cultural changes. Employees in the acquired organization may be resistant to change and may not adapt well to our corporate culture.

Our high leverage limits our financial flexibility.

We incurred $750.0 million of senior term loan debt, entered into a $75.0 million revolving credit facility, although we had not yet drawn down any proceeds under the revolving credit facility as of December 31, 2005, and issued $205.0 million of convertible notes to pay for our recent acquisition of INET, bringing our total debt as of December 31, 2005 (and without giving effect to the use of proceeds received by Nasdaq from this offering) to $1,192.4 million. This significant leverage may:

- impair our ability to obtain additional financing in the future for refinancing indebtedness, acquisitions, working capital, capital expenditures, or other purposes;

- reduce funds available to us for our operations and general corporate purposes or for capital expenditures as a result of the dedication of a substantial portion of our consolidated cash flow from operations to the payment of principal and interest on our indebtedness;

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- place us at a competitive disadvantage compared with our competitors with less debt;
- increase our vulnerability to a downturn in general economic conditions; and
- curtail our flexibility to respond to changing economic or competitive conditions or to make acquisitions.

In addition, our credit facility covenants restrict our ability to grant liens, incur additional indebtedness, pay dividends, sell assets, make certain payments, conduct transactions with affiliates and merge or consolidate, and our convertible notes contain a covenant restricting our ability to incur senior debt.

We may not be able keep up with rapid technological and other competitive changes affecting our industry.

The markets in which we compete 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. If the INET platform fails to work as expected, our business would be negatively affected. In addition, our business, financial condition and operating results may be adversely affected if we cannot successfully develop, introduce, or market new services and products or if we need to adopt costly and customized technology for these services and products. In addition, our failure 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 our business, financial condition and operating results.

We must adapt to significant competition in our listing business.

We face significant competition in our listing business from other exchanges. Historically, the NYSE has been our largest competitor, and we have competed with them primarily for listings of larger domestic and international companies. However, with the NYSE s planned acquisition of Archipelago, the competitive landscape is changing, and the merged exchange may seek listings of small to mid-size companies, in direct competition with our listing business, a market in which neither exchange previously had as much success. The NYSE recently decreased the maximum annual fee to list by 50% from $1 million to $500,000, which makes its fees more competitive compared to our maximum annual fee of $75,000. Also, it is likely that after the merger, Archipelago will use the NYSE brand to offer low-cost listings. If we are required to lower our listing fees in response, it could have an adverse effect on our operating results. In addition, on occasion, issuers may transfer their listings from Nasdaq to other venues. Significant transfers could have a material adverse effect on our financial results.

Declines in the IPO market have an adverse effect on our revenues.

Stagnation or decline in the IPO market impacts the number of our new listings on The Nasdaq Stock Market, and thus our related revenues. We recognize revenue from new listings on a straight-line basis over an estimated six-year service period. As a result of the decline in the IPO market from 2000-2002, our deferred revenues associated with those years will be lower than our recent deferred revenue associated with the years immediately preceding that period. Our new IPO listings fell from 148 in 2004 to 126 in 2005.

The Sarbanes-Oxley Act, commonly known as SOX, may dampen IPO activity. SOX requires Nasdaq and other U.S. markets and exchanges to impose corporate governance requirements on all listed companies. Additionally, Section 404 of SOX requires all of our listed companies to complete an internal control audit, which many companies find to be burdensome and costly. SOX has particularly received a significant amount of focus among international companies. International exchanges, such as the London Stock Exchange, or LSE, and Deutsche Börse are not required to impose these requirements on their listed companies and, as a result, are becoming more significant competitors, particularly for international issuers. The LSE s AIM market, which has minimal listing standards, has recently received significant attention as an alternative listing venue. We may have trouble attracting and maintaining listings of foreign based companies in light of this competition.

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Losses in listings to a combined NYSE and Archipelago could cause a reduction in revenues in both our Issuer Services and Market Services segments.

While the reduction in initial listings or the loss of one or more large issuers could decrease listing revenues for our Issuer Services segment, it could cause an even more significant decrease in revenues from our Market Services segment, to the extent that we derive revenues from the quoting, reporting and trading of those issuers securities. If the combined NYSE/Archipelago is successful in competing with us for our core listings, we would lose not only the listing fees associated with those companies, but also a substantial amount of the trade execution fees generated by trading in those companies securities.

Delistings may have an adverse effect on our revenues.

Delistings generally increase under poor economic conditions, since issuers are not able to comply with our minimum bid price, market capitalization and/or shareholders equity requirements. Companies are also delisted when they cannot file their periodic reports with the SEC on time. During 2005, 85 companies were delisted for non-compliance with one or more of these requirements and 247 companies voluntarily delisted primarily due to mergers, going private transactions, or changing listing venues. In addition, the SEC has recently proposed new rules which will make it easier for foreign private issuers to delist and stop being U.S. reporting companies. Significant delistings would have a material adverse effect on our financial results.

A decrease in trading volume will decrease our trading revenues.

Trading volume is directly affected by economic and political conditions, broad trends in business and finance and changes in price levels of securities and by the overall level of investor confidence. Weak economic conditions or a reduction in securities prices could result in a decline in trading volume. A decline in trading volume would lower revenues from our Market Services segment and may adversely affect our operating results. We are particularly affected by declines in trading volume in technology-related securities because a significant portion of our customers trade in these types of securities and a large number of technology-related companies are listed on The Nasdaq Stock Market. In addition, investor confidence and trader interest, and thus trading volume, can be affected by factors outside our control, such as the publicity surrounding investigations and prosecutions for corporate governance or accounting irregularities at public companies.

We may experience fluctuations in our operating results.

The financial services industry is risky and unpredictable and is directly affected by many national and international factors beyond our control. Any one of these factors could have a material adverse effect on our business, financial condition and operating results by causing a substantial decline in the financial services markets and reduced trading volume.

Our revenue, margins and operating results have varied in the past and are likely to fluctuate significantly in the future, making them difficult to predict. These difficulties are particularly exacerbated in light of our acquisition of INET and the uncertainties surrounding the benefits and costs associated with integration. Additionally, since our senior term loan debt bears interest at a variable rate and we do not have interest rate hedges in place on this debt, any increase in interest rates will increase our interest expense and reduce our cash flow. Other than our variable rate debt, we believe our business has relatively large fixed costs and low variable costs, which magnifies the impact of revenue fluctuations on our operating results. As a result, a decline in our revenue may lead to a relatively larger impact on operating results. A substantial portion of our operating expenses is related to personnel costs, regulation and corporate overhead, none of which can be adjusted quickly. Our operating expense levels are based on our expectations for future revenue. If actual revenue is below management s expectations, or if our expenses increase before revenues do, both gross margins and operating results would be materially and adversely affected. Because of these fluctuations, it is possible that our operating results or other operating metrics may fail to meet the expectations of stock market analysts and investors. If this happens, the market price of our common stock is likely to decline.

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We must control our costs to remain profitable.

We base our cost structure on historical and expected levels of demand for our products and services. A decline in this demand for our products and services may reduce our revenues without a corresponding decline in our expenses since we may not be able to adjust our cost structure on a timely basis. Our ability to manage our costs will be particularly challenging as a result of INET acquisition and integration efforts. Failure to achieve our goals on cost savings will have an adverse impact on our results of operations. We may fail in our initiatives to increase our business. We also may not have adequately positioned ourselves in the increasingly competitive securities markets or a weakened equities market.

The separation of Instinet s institutional brokerage business from Instinet and the related sale to an affiliate of Silver Lake Partners could result in unexpected costs.

In connection with our acquisition of Instinet, we concurrently sold Instinet s institutional brokerage business and specified Instinet corporate-level assets to Instinet Holdings Incorporated, or Instinet Holdings, an affiliate of SLP. Instinet Holdings agreed to assume the liabilities of the institutional brokerage business, as well as the additional corporate-level liabilities not directly related to the institutional brokerage business, such as tax, severance, real estate leases and historical restructuring obligations. We may be subject to claims related to these assets. In addition, we may be subject to claims arising from Instinet s institutional brokerage business. Under the terms of the institutional brokerage transaction agreement, Instinet Holdings agreed to indemnify us after the closing for liabilities primarily related to the businesses, assets and liabilities that it purchased, and, similarly, we have agreed to indemnify Instinet Holdings after the closing for liabilities primarily related to INET. Our ability to seek indemnification from Instinet Holdings is, however, limited by the strength of Instinet Holdings s own financial condition, which could change in the future. Instinet Holdings may not have the ability to fulfill its indemnification obligations to us in connection with the institutional brokerage acquisition, in which case, we may be liable for these claims. These liabilities could be significant, and if we are unable to enforce the institutional brokerage indemnification obligation, then our business, financial condition and operating results could be adversely affected.

We face significant competition in our securities trading business, which could reduce our transactions, trade reporting and market information revenues and negatively impact our financial results.

We compete for trading of Nasdaq-, NYSE- and Amex-listed securities. Any decision by market participants to quote, execute or report trades through exchanges, ECNs or the Alternative Display Facility maintained by NASD, could have a negative impact on our share of quotes and trades in securities traded through The Nasdaq Market Center.

While we trade a fairly large percentage of securities of Nasdaq-listed companies, we face strong competition from Archipelago and other emerging players in the market. For non-Nasdaq-listed securities, the national exchanges offer greater liquidity in more non-Nasdaq-listed securities than we do. Accordingly, we face major obstacles in trying to attract trading volume in non-Nasdaq-listed securities.

Our responses to competition may not be sufficient to regain lost business or prevent other market participants from shifting some of their quoting and/or trade reporting to other industry participants. We may need to reduce prices to remain competitive. Our inability to compete for transactions, trade reporting and market information revenues could have an adverse effect on our business, financial condition and operating results.

The merger of NYSE and Archipelago will create a strong competitor.

The merger of NYSE and Archipelago will create strong competition for us, particularly if NYSE is able to create its own electronic trading platform or migrate its trading business to Archipelago s platform. NYSE has stated that it intends to develop electronic trading capabilities that will compete directly with Nasdaq s. In

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addition, after it merges with Archipelago, NYSE will have access to ArcaEx s electronic systems. If NYSE s trading volume increases to our detriment as a result of the merger with Archipelago, it would have a negative impact on our operating results.

New competitors could reduce our revenues and impact our ability to increase our market share of transactions in Nasdaq-listed and exchange-listed securities.

It is possible that the INET acquisition and the NYSE/Archipelago merger will create demand for new or expanded trading venues. For example, Knight Capital Group, Inc., a market maker in Nasdaq-listed securities, recently announced the acquisition of Attain ECN, a competitor of ours. TradeBot Systems recently announced the establishment of BATS ECN, which it indicated would be operational early in 2006. Citigroup Inc. recently announced plans to launch its own electronic stock-trading network from its acquisition of OnTrade Inc., an ECN previously operated by NexTrade Holdings Inc. We believe Regulation NMS may enhance competition in Nasdaq-listed securities from these or other new competitors. Additionally, new ECNs may develop trading platforms that are more competitive than ours. Finally, there has been increased use of electronic trading systems specializing in large volume trades, such as LiquidNet, Pipeline Trading and Investment Technology Group s POSIT platform, which may divert trading volume from The Nasdaq Market Center. If these or other trading venues are successful, our business, financial condition and operating results could be adversely affected.

Price competition has affected and could continue to affect our business.

The securities trading industry is characterized by intense price competition. We have in the past lowered prices and increased rebates to attempt to gain market share. These strategies have not always been successful and have at times hurt our operating performance. Additionally, we have also been, and may once again be, required to adjust pricing to respond to actions by our competitors, which have adversely impacted our operating results.

Price competition with respect to market data rebates or our program relating to sharing revenues associated with trading Nasdaq-listed securities could attract trading volume away from us, leading to loss of market share and decreased revenues.

The adoption and implementation of Regulation NMS by the SEC could adversely affect our business.

On April 6, 2005, the SEC adopted Regulation NMS, which has four primary components: the Order Protection Rule, the Access Rule, the Market Data Rule and the Sub-Penny Rule. We may incur technological and other costs in changing our systems and operations so that we can comply with these rules. Additionally, the impact of Regulation NMS is hard to predict and there may be problems or competitive challenges that we do not foresee that adversely affect our business as Regulation NMS is implemented. Finally, there is also a risk that the rules may materially change during implementation which would undermine business plans and investments that have been made based on the current form of the rules.

Our revenues may be affected by competition in the business for financial products.

We have grown our financial products business, which creates indexes and licenses them for Nasdaq-branded financial products. Nasdaq-sponsored financial products are subject to intense competition from other ETFs, derivatives and structured products as investment alternatives. Our revenues may be adversely affected by increasing competition from competitors financial products designed to replicate or correlate with the performance of Nasdaq financial products. In addition, the legal and regulatory climate, which supports the licensing of these financial products, may change in a manner which adversely impacts our ability to successfully license our products. Further, many other entrants have recently emerged who not only compete with us for

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future growth opportunities, but who may also introduce products which erode the position of our current offerings, thereby adversely affecting our business, financial conditions and operating results.

We must continue to invest in our operations to integrate INET and to maintain and grow our business, and we may need additional funds to support our business.

In addition to our debt service obligations, we will need to make substantial investments in our operations on a continuing basis during 2006 to integrate the INET acquisition. If our current level of operating results decrease, our need to spend cash to service debt payments may impair our ability to make investments in our business or to integrate INET.

We depend on the availability of adequate capital to maintain and develop our business. We believe that our current capital requirements will be met from internally generated funds and from the funds raised in this offering. However, based upon a variety of factors, some of which are not within our control, our ability to fund our capital requirements may vary from those currently planned.

Should we raise funds through incurring additional debt, we may become subject to covenants even more restrictive than those contained in our current debt instruments. Furthermore, if we issue additional equity, our equity holders, including you, may suffer dilution. There can be no assurance that additional capital will be available on a timely basis, or on favorable terms or at all.

System limitations, failures or security breaches could harm our business.

Our business depends on the integrity and performance of the computer and communications systems supporting it. If our systems cannot expand to cope with increased demand or otherwise fail to perform, we could experience unanticipated disruptions in service, slower response times and delays in the introduction of new products and services. These consequences could result in lower trading volumes, financial losses, decreased customer service and satisfaction and regulatory sanctions. We have experienced occasional systems failures and delays in the past and could experience future systems failures and delays, especially as we implement new systems associated with the INET migration.

We use internally developed systems to operate our business, including transaction processing systems to accommodate increased capacity. If our trading volume increases unexpectedly, we will need to expand and upgrade our technology, transaction processing systems and network infrastructure. We do not know whether we will be able to accurately project the rate, timing, or cost of any increases, or expand and upgrade our systems and infrastructure to accommodate any increases in a timely manner.

Our 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. We have active and aggressive programs in place to identify and minimize our exposure to these vulnerabilities and work in collaboration with the technology industry to share corrective measures with our business partners. Although we currently maintain multiple computer facilities that are designed to provide redundancy and back-up to reduce the risk of system disruptions and have facilities in place that are expected to maintain service during a system disruption, such systems and facilities may prove inadequate. Any system failure that causes an interruption in service or decreases the responsiveness of our service could impair our reputation, damage our brand name and negatively impact our business, financial condition and operating results.

Future acquisitions, partnerships and joint ventures may require significant resources and/or result in significant unanticipated losses, costs, or liabilities.

In the future we may seek to grow our company by making additional acquisitions or entering into partnerships and joint ventures which may be material. We may finance future acquisitions by issuing additional

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equity and/or debt. The issuance of additional equity in connection with any such transaction could be substantially dilutive to existing stockholders. The issuance of additional debt could increase our leverage substantially. In addition, announcement or implementation of future transactions by us or others could have a material effect on the price of our stock. We could face financial risks associated with incurring additional debt, particularly if such debt results in significant incremental leverage, such as reducing our liquidity, curtailing our access to financing markets and increasing the cash flow required to service such indebtedness. Any incremental debt incurred to finance an acquisition could also place significant constraints on the operation of our business. Additionally, acquisitions, partnerships or investments may require significant managerial attention, which may be diverted from our other operations.

These equity, debt and managerial commitments may impair the operation of our businesses. Furthermore, any future acquisitions of businesses or facilities could entail a number of additional risks, including:

- problems with effective integration of operations;
- the inability to maintain key pre-acquisition business relationships;
- increased operating costs;
- problems with regulatory bodies;
- exposure to unanticipated liabilities;
- difficulties in realizing projected efficiencies, synergies and cost savings; and
- changes in our credit rating and financing costs.