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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

**FOR ANNUAL AND TRANSITION REPORTS
PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2002 or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934**

For the transition period from ______ to ______

Commission file number 000-32651

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:
(866) 745-1825

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

None.

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes ☒ No o

As of June 28, 2002 the aggregate market value of the registrant's voting and non-voting common equity held by non-affiliates was $553,000,400 (this amount represents 34,562,525 shares of Nasdaq's common stock (the "Common Stock") then held by nonaffiliates; there was no public trading market for the Common Stock on that date).

On March 21, 2003, 78,340,266 shares of the registrant's Common Stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's proxy statement for the annual stockholders' meeting to be held in 2003 are incorporated by reference into Part III.

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Certain statements in this annual report on Form 10-K 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 Nasdaq's 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 December 31, 2002. Readers should carefully review this annual report 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.*

Part I

Item 1. Business.

Nasdaq Overview

Nasdaq operates The Nasdaq Stock Market®, the world's largest electronic screen-based equity securities market and the world's largest equity securities market based on share volume. Since its inception in 1971, Nasdaq has been a leader in utilizing technology to democratize and extend the reach of the securities markets.

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

- 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"), registered stock exchanges and order entry firms, each of which is described below, are the users of Nasdaq's Transaction Services. For the year ended December 31, 2002, Transaction Services accounted for revenue of $380.7 million, which represented approximately 47.6% of Nasdaq's total revenue. See "—Products and Services—Transaction Services" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations."

- Market Information Services provide varying levels of quote and trade information to data vendors, who in turn sell the information to the public. For the year ended December 31, 2002, Market Information Services accounted for revenue of $202.4 million, which represented approximately 25.3% of Nasdaq's total revenue. See "—Products and Services—Market Information Services" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations."

- Corporate Client Group provides customer services and information products to Nasdaq-listed companies and is responsible for obtaining new listings on The Nasdaq Stock Market. For the year ended December 31, 2002, the Corporate Client Group accounted for revenue of $176.7 million, which represented approximately 22.1% of Nasdaq's total revenue. See "—Products and Services—Corporate Client Group" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations."

Nasdaq's market model is one of "open architecture." As a fully electronic market, The Nasdaq Stock Market does not have a central trading floor. 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." Market participants can access the Nasdaq network via the Nasdaq Workstation II, Nasdaq's proprietary operating system for the Nasdaq network, or through other customized operating systems. See "—Products and Services—Transaction Services—Access Services." Nasdaq market participants include market makers, ECNs, registered stock exchanges and order entry firms.

Market makers, also known as dealers, provide liquidity (the ability of a security to absorb a large amount of buying and selling without substantial movement in price) by standing ready 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 security 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. Approximately 375 market makers participate in The Nasdaq Stock Market. On average, securities listed on The Nasdaq Stock Market have 15 market makers. The minimum number of market makers for any Nasdaq-listed stock is two and some securities have over 100 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. 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 enter marketable orders for execution against the posted quotations of market makers and ECNs. As a result of a rule change by the U.S. Securities and Exchange Commission (the "SEC") on February 10, 2003, order entry firms are allowed to enter non-marketable orders into SuperMontage[SM] (Nasdaq's primary order execution system for Nasdaq-listed securities) for anonymous display. The objective of this rule change is to remove a barrier to full participation in SuperMontage and thereby deepen liquidity and enhance Nasdaq's competitive position.

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 sell this information to the investment community and the general public.

Nasdaq's total revenue for the year ended December 31, 2002 was $799.2 million, a 6.8% decrease from $857.2 million during 2001. Nasdaq's net income increased 6.4% for the year ended December 31, 2002 to $43.1 million from $40.5 million during 2001. Total revenue and net income numbers reflect a change in accounting principle adopted as of January 1, 2000 ("Change in Accounting Principle"). See "Item 6. Selected Consolidated Financial Data," "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Consolidated Financial Statements—Note 4." 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 provides statistics about The Nasdaq Stock Market in these areas:

	For the 12 months ended December 31, 2002			For the 12 months ended December 31, 2001		
	The Nasdaq National Market tier	The Nasdaq SmallCap tier	The Nasdaq Stock Market	The Nasdaq National Market tier	The Nasdaq SmallCap tier	The Nasdaq Stock Market
Total share volume (billions)	429.9	11.7	441.7*	465.5	5.7	471.2
Percentage of total shares traded in the primary U.S. markets	—	—	53.8%	—	—	59.3%
Dollar volume of equity securities traded on The Nasdaq Stock Market (billions)	$ 7,232.5	$ 21.8	$ 7,254.3	$ 10,913.8	$ 20.8	$ 10,934.6
Percentage of dollar volume of all equity securities traded in the primary U.S. markets	—	—	39.8%	—	—	49.2%
Average daily share volume (millions)	1,706.1	46.5	1,752.6	1,877.2	22.8	1,900.0
Average daily dollar volume (billions)	$ 28.7	$ 0.1	$ 28.8	$ 44.0	$ 0.1	$ 44.1
Number of Nasdaq-listed companies (at year end)	2,824	835	3,659	3,351	758	4,109
Total domestic shares outstanding (billions) (at year end)	131.3	14.9	146.1*	150.9	6.2	157.1
Market value of Nasdaq-listed companies (billions) (at year end)	$ 1,943.6	$ 54.0	$ 1,997.6	$ 2,837.8	$ 62.1	$ 2,899.9

* Aggregate numbers for each tier of The Nasdaq Stock Market may not match total number due to rounding of numbers in chart.

As of December 31, 2002, there were 3,659 companies listed on The Nasdaq Stock Market, consisting of 2,824 companies listed on The Nasdaq National Market tier and 835 on The Nasdaq SmallCap Market tier. As of December 31, 2002, The Nasdaq Stock Market was home to the highest percentage of publicly-traded technology and service companies in the U.S., including approximately 80% of computer hardware and peripherals companies, 92% of computer networking companies, 90% of computer software and data processing companies, 87% of semiconductor companies, 60% of telecommunications companies, and 80% of biotechnology and health care companies. In addition, as of December 31, 2002, there were 378 foreign companies listed on The Nasdaq Stock Market, consisting of 274 foreign companies listed on The Nasdaq National Market tier and 104 on The Nasdaq SmallCap Market tier. See "—Products and Services—Corporate Client Group."

Nasdaq's History and Structure

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 SEC, is the largest self-regulatory organization ("SRO") in the U.S. with a membership that includes virtually every broker-dealer that engages in the securities business with the U.S. public. The NASD must retain voting control over Nasdaq until such time as Nasdaq may be approved by the SEC for registration as a national securities exchange ("Exchange Registration"), as discussed below.

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 10,806,494 warrants to purchase an aggregate amount of 43,225,976 shares of outstanding common stock of Nasdaq (the "Common Stock") and (B) 4,543,591 shares of outstanding Common Stock and (ii) Nasdaq sold an aggregate of 28,692,543 newly-issued shares of Common Stock to investors. Securities in the private placements were offered to all NASD members, certain issuers listed on The Nasdaq Stock Market, and certain investment companies. Each warrant issued by the NASD entitles the holder to purchase one share in each of four one-year exercise periods. The first exercise period commenced after June 28, 2002 and will expire on June 28, 2003. As a result of the private placements of its Common Stock, Nasdaq became a reporting company pursuant to Section 12(g) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), on June 29, 2001, and became subject to the reporting requirements under Sections 13, 14 and 16 of the Exchange Act.

Trading in the Common Stock commenced on July 1, 2002 on the Over-the-Counter Bulletin Board Service® ("OTC Bulletin Board") under the symbol "NDAQ" upon expiration of contractual restrictions on shares of Common Stock sold in the private placement. During 2002, trading activity in Common Stock has been limited with average daily trading volume of approximately 14,000 shares during the period from July through December 2002. See "—Risk Factors—There currently is a limited trading market for the Common Stock."

As part of the Restructuring, Nasdaq repurchased 18,461,538 shares of Common Stock from the NASD on May 3, 2001, for an aggregate purchase price of $240.0 million. On March 8, 2002, Nasdaq completed a two stage repurchase of an additional 33,768,895 shares of Common Stock owned by the NASD, which represented all of the outstanding shares of Common Stock owned by the NASD, except for the 43,225,976 shares of Common Stock underlying the warrants issued by the NASD in the private placements. Nasdaq purchased these shares of Common Stock for $305.2 million in aggregate cash consideration, 1,338,402 shares of Nasdaq's Series A Cumulative Preferred Stock and one share of Nasdaq's Series B Preferred Stock (the "Repurchase"). The NASD owns all of the outstanding shares of the Series A and Series B Preferred Stock. All of the shares of Common Stock repurchased by Nasdaq from the NASD have been placed in Common Stock in treasury.

In May 2001, Nasdaq sold $240.0 million of 4.0% convertible subordinated notes due 2006 (the "Subordinated Notes") to Hellman & Friedman Capital Partners IV, L.P. and certain of its affiliated limited partnerships (collectively, "Hellman & Friedman"). Nasdaq used the proceeds from the sale of the Subordinated Notes to repurchase shares of Common Stock from the NASD, as discussed above. At Nasdaq's 2002 Annual Meeting of Stockholders, stockholders approved an amendment to Nasdaq's Restated Certificate of Incorporation ("Certificate of Incorporation") granting holders of the Subordinated Notes the right to vote with the holders of Common Stock and Series B Stock on matters submitted to a vote of stockholders. The holders of the Subordinated Notes are entitled to the number of votes equal to the number of shares of Common Stock into which the Subordinated Notes could be converted, subject to the 5% voting limitation contained in the Certificate of Incorporation.

In connection with the Restructuring, Nasdaq filed an application with the SEC for Exchange Registration on November 9, 2000. In general, Exchange Registration is a change in legal status for Nasdaq as opposed to a change in the way Nasdaq operates. Nasdaq's application for Exchange Registration was published by the SEC for public comment in 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 November 2001, Nasdaq agreed to the SEC's request for an indefinite extension of the date by which the SEC must approve Nasdaq's application or begin proceedings to determine whether the application should be denied. Nasdaq continues to work with the SEC to address outstanding issues. While Nasdaq believes that the SEC will ultimately grant its application for Exchange Registration, there is no assurance that Nasdaq's application for Exchange Registration will be granted or, if granted, the timing of such approval and what restrictions or changes the SEC will require in Nasdaq's operations or corporate structure. 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 this approval."

In connection with Exchange Registration, the SEC is conducting a review of Nasdaq's current rules and operations. As part of this review, the SEC required as a condition for its approval of Exchange Registration and SuperMontage that the NASD develop and operate an alternative display facility ("ADF") for NASD members to assist in the quotation and transaction reporting of exchange-listed securities. The SEC approved the NASD's proposals for the ADF on a pilot basis on July 24, 2002 and the ADF became operational in October 2002 at the same time as SuperMontage. See "—Risk Factors—Competition by regional exchanges and the ADF may reduce Nasdaq's transactions, trade reporting and market information revenue and impact the ability of SuperMontage to increase Nasdaq's market share of transactions in Nasdaq-listed securities."

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"). 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. In addition, the Delegation Plan requires that the NASD retain greater than 50% of the voting control over Nasdaq. The share of Series B Preferred Stock issued to the NASD in the Repurchase will ensure that the NASD maintains voting control until Exchange Registration. The voting power of the share of Series B Preferred Stock is recalculated for each matter presented to stockholders as of the record date for the determination of the stockholders entitled to vote on the matter. The NASD, as holder of the share of Series B Preferred Stock, will be entitled to cast the number of votes that, together with all other votes that the NASD is entitled to vote by virtue of ownership, proxies or voting trusts, enables the NASD to cast one vote more than one-half of all votes entitled to be cast by stockholders. In addition, the shares of Common Stock 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 until Exchange Registration. Shares of Series A Preferred Stock do not have voting rights, except for the right as a class to elect two new directors to the Board of Directors at any time distributions on the Series A Preferred Stock are in arrears for four consecutive quarters and as otherwise required by Delaware law. If Nasdaq obtains Exchange Registration, the share of Series B Preferred Stock will lose its voting rights and will be redeemed by Nasdaq. Nasdaq may redeem the shares of Series A Preferred Stock at any time after Exchange Registration and is required to use the net proceeds from an initial public offering ("IPO"), and upon the occurrence of certain other events, to redeem all or a portion of the Series A Preferred Stock.

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 registered 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, an SRO is responsible for regulating its members through the adoption and enforcement of rules and regulations governing the business conduct of its members. As an 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.

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. As an exchange, Nasdaq will no longer have to share revenue from certain proprietary products with certain other exchanges. An independent Nasdaq will have greater access to the capital markets in order to raise funds for service enhancements and

increased flexibility to use its Common Stock in connection with acquisitions or other strategic partnerships.

Industry Overview

The securities market industry historically has included The Nasdaq Stock Market, the national stock exchanges, such as the New York Stock Exchange ("NYSE") and the American Stock Exchange ("Amex"), and a number of regional exchanges. Some of these regional exchanges have a few exclusive "local" securities, but most compete in the business of trading the more active NYSE-, Nasdaq-, and Amex-listed securities. The regional exchanges include the Boston, Chicago, Cincinnati, Pacific (which includes the Archipelago Exchange) 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 to the extent that they report trades through The Nasdaq Stock Market, display their best bid and offer on the market, and transact on The Nasdaq Stock Market.

The following table sets forth information comparing the primary U.S. markets for 2002 and 2001:

	For the 12 months ended December 31, 2002			For the 12 months ended December 31, 2001		
	The Nasdaq Stock Market	NYSE	Amex	The Nasdaq Stock Market	NYSE	Amex
Total share volume (billions)	441.7	363.1	15.7	471.2	307.5	16.3
Total dollar volume (trillions)	$ 7.3	$ 10.3	$ 0.6	$ 10.9	$ 10.5	$ 0.8
Average daily share volume (billions)	1.8	1.4	0.1	1.9	1.2	0.1
Average daily dollar volume (billions)	$ 28.8	$ 40.9	$ 2.5	$ 44.1	$ 42.3	$ 3.3
Number of listed companies (at year end)	3,659	2,783	698	4,109	2,798	691

National Market System

In the 1970s, Congress passed legislation and the SEC adopted rules to create a national market system to disseminate market information. 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 for a fee to data vendors, who in turn sell the information to the public. These fees are referred to as "Tape Fees." After costs are deducted, the Tape Fees are distributed among the participants in each of the national market system plans based on their transaction volume. The national market system plans include:

- The Nasdaq Unlisted Trading Privileges Plan ("UTP Plan"), which collects and disseminates price and transaction information for securities listed on The Nasdaq Stock Market. Members of the plan are the NASD and certain regional exchanges.

- 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.

- 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.

- 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) Transaction Services;

(2) Market Information Services; and

(3) Corporate Client Group.

Transaction Services. Transaction Services are the core set of products designed to provide market participants with access to The Nasdaq Stock Market, execution services that provide quoting and trading capabilities, and reporting services such as trade reporting and risk management. In addition, Nasdaq provides transaction services for securities authorized for trading on the OTC Bulletin Board as well as exchange-listed securities that are traded in the over-the-counter market by NASD members. See "—Other Products and Markets—Nasdaq InterMarket" and "—OTC Bulletin Board."

All of Nasdaq's market participants are connected over an Enterprise Wide Network II jointly designed and managed by Nasdaq and WorldCom, Inc. ("WorldCom"). Nasdaq entered into a contract with WorldCom in 1997 to design and support the network. That contract, as amended in June 2002, continues for three years from the date of the amendment. Pursuant to the agreement, however, Nasdaq has the right to terminate the contract in certain circumstances after the second year. WorldCom charges Nasdaq monthly for use of the network. The network is scalable and reliable, supporting trading volume of up to eight billion shares per day. Each market participant is connected to The Nasdaq Stock Market through paired connections with two lines to greatly reduce the risk of connection failure. Although WorldCom declared bankruptcy in July 2002, Nasdaq does not foresee any interruption in service under the contract. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results Operations—Contractual Obligations and Contingent Commitments" and "Consolidated Financial Statements, Note 17."

Access Services. Nasdaq provides access to its execution and trade reporting systems through four products: Nasdaq Workstation II; the Application Program Interface that allows firms to create their own interface to The Nasdaq Stock Market; a Computer-to-Computer Interface ("CTCI") that provides for automated order entry, trade reporting and routing; and the Nasdaq Workstation WebLink system that provides browser-based access to The Nasdaq Stock Market via the Internet.

Nasdaq Workstation II, introduced in 1995, is a software product that is installed on approximately 4,300 computer desktops to provide market participants with access to Nasdaq transaction services. Nasdaq Workstation II is designed to provide a fast, flexible, reliable, and convenient trading environment capable of running on a variety of computers. In addition to the Nasdaq Workstation II, the Application Program Interface allows approximately 2,770 users to access The Nasdaq Stock Market over customized interfaces developed by market participants. Using the Application Program Interface, a firm can connect its internal systems to The Nasdaq Stock Market for order and position management. Access to The Nasdaq Stock Market via the Application Program Interface instead of Nasdaq Workstation II represents a growing trend among Nasdaq market participants.

For the years ended December 31, 2002, 2001 and 2000, Nasdaq's total revenue from Nasdaq Workstation II and the Application Program Interface was $118.4 million, $142.9 million and $118.2 million, respectively. Nasdaq Workstation II and Application Program Interface fees accounted for approximately 14.8% of Nasdaq's total revenue for the year ended December 31, 2002.

Nasdaq also provides CTCI for users to report trades, enter orders into, and receive execution messages through, SuperMontage. The CTCI links The Nasdaq Stock Market to automated firm systems. This interface was upgraded in 2002 to a new protocol and delivers increased line speed. CTCI revenue accounted for approximately 2.1% of Nasdaq's total revenue for the year ended December 31, 2002.

Nasdaq's Workstation WebLink, an Internet browser-based system for small order-entry and market making firms, provides small firms with a low-cost option for performing basic trade reporting and risk management functions as well as order routing. Workstation WebLink accounted for less than 1% of Nasdaq's total revenue for the year ended December 31, 2002.

Execution Services. 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 participating ECNs in that security and independently ranks the bids and offers so that one can easily determine the Nasdaq participant 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 referred to as the "Nasdaq inside."

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 participants have the ability to post and adjust quotations in the Nasdaq system. However, a recent rule change in 2003 permits order entry firms to enter non-marketable orders into SuperMontage for anonymous display.

Nasdaq provides electronic routing of buy and sell orders for Nasdaq-listed securities to and from a market maker, order entry firm 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 fourth quarter of 2002, approximately 20.1% of Nasdaq's share volume (based on the aggregate number of shares traded) came from orders routed and executed using a Nasdaq system, with the remainder coming from regional exchanges, the ADF and market participants' internal or alternative trading systems.*

* In order to use data more consistent with the separation of the Securities Information Processor "SIP" function from The Nasdaq Stock Market that began in July 2002 (see "—Market Information Services"), the methodology for calculating systems market share of volume was adjusted. As a result, information on share volume market share may not be comparable to any similar data previously provided by Nasdaq for prior periods based on the old methodology.

Nasdaq's primary execution system is now SuperMontage, which began its rollout on October 14, 2002, and was successfully extended to all securities trading on The Nasdaq Stock Market on December 2, 2002. SuperMontage represents a major improvement in the ability of market participants to access, process, display and integrate orders and quotes in The Nasdaq Stock Market. SuperMontage

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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 the Nasdaq inside and four price levels away, thus increasing competition and market transparency. SuperMontage also provides 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 chooses to reveal 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 price level as well as at multiple price levels, SuperMontage assists market participants with the management of their back book, i.e., orders that are not at the best price. This functionality also assists market participants in complying with the SEC's order handling rules. These rules, 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 make it easier for participants to access ECNs via Nasdaq systems. Nasdaq is currently reviewing the functionality of SuperMontage and is considering certain additional modifications to the system requested by market participants. Nasdaq's goal is to build market share growth in 2003 by encouraging user acceptance of SuperMontage and Nasdaq will continue to use competitive pricing to bring more order flow to SuperMontage.

The primary fee for SuperMontage is a transaction execution charge, assessed on a per share basis to the party that accesses the liquidity provided by another market participant. In certain circumstances, Nasdaq credits a portion of the per share execution charge to the market participant that provides the liquidity. In addition, certain types of SuperMontage orders are subject to order entry and order cancellation charges. In February 2003, Nasdaq eliminated a fee that it had formerly charged when a market participant updated a quotation or non-marketable limit order that it had posted in SuperMontage. SuperMontage generated revenue of $11.0 million for the year ended December 31, 2002.

Upon complete implementation of SuperMontage in December 2002, Nasdaq retired several order routing and execution systems that had previously been used by The Nasdaq Stock Market. These systems include:

- The Nasdaq National Market Execution System (also known as "SuperSoes^{SM}"), which was fully implemented on July 30, 2001 and functioned as the primary system for transactions in securities listed on The Nasdaq National Market. For the years ended December 31, 2002 and 2001, Nasdaq's total revenue from SuperSoes was $109.7 million and $32.3 million, respectively. SuperSoes accounted for approximately 13.7% of Nasdaq's total revenue for the year ended December 31, 2002.

- SelectNet, which functioned as an automated Nasdaq service to facilitate order execution by linking all market participants that trade Nasdaq-listed securities. Prior to the implementation of SuperSoes in July 2001, SelectNet was the primary system that market makers used to trade with one another. Since July 2001, SelectNet served primarily as a means for participants to reach ECN quotes on The Nasdaq Stock Market and was also a tool for market makers seeking to negotiate trades with a particular counter-party or to broadcast such an order to all market participants. Certain features of SelectNet have been incorporated into SuperMontage. For the years ended December 31, 2002, 2001 and 2000, Nasdaq's total revenue from SelectNet was $28.7 million, $87.1 million and $113.5 million, respectively. SelectNet accounted for approximately 3.6% of Nasdaq's total revenue for the year ended December 31, 2002.

- SOES, which routed and executed small orders of public customers seeking to trade securities listed on The Nasdaq SmallCap Market. Such transactions are now also processed through

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SuperMontage. SOES accounted for less than 1% of Nasdaq's total revenue for the year ended December 31, 2002. For the years ended December 31, 2001 and 2000, Nasdaq's total revenue from SOES was $26.1 million and $32.2 million, respectively. During 2000 and 2001, until the introduction of SuperSoes, SOES also executed orders for securities listed on The Nasdaq National Market.

In addition to SuperMontage, Nasdaq continues to offer several specialized transaction services including:

- Advanced Computerized Execution System ("ACES"), an order routing service that can be used by any Nasdaq market participant. Order entry firms that use ACES generally route buy and sell orders to market makers after establishing a trading relationship. Market makers in turn leverage their internal systems to fill orders at the best price displayed in the market. ACES participants can route orders directly to other participants through Nasdaq Workstation II, Nasdaq Workstation Weblink or their own proprietary systems. These orders are executed within the participant's internal trading system and execution reports are routed back to the entering firm. ACES is often used to automate order routing and to connect order entry firms whose execution volume is too low to justify the fixed costs of establishing a proprietary order management system. ACES fees are charged to the receiving firm only, and consist of graduated activity fees per execution that decrease as the market maker's number of executions per month increases. ACES accounted for less than 1% of Nasdaq's total revenue for the year ended December 31, 2002.

- Computer Assisted Execution System^{SM} ("CAES^{SM}"), 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 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. Nasdaq charges Nasdaq InterMarket participants a monthly fee per terminal to access to both systems (CAES/Intermarket Trading System). In addition, a per transaction fee is charged to the originating party (i.e., the sender). CAES and Intermarket Trading System fees accounted for less than 1% of Nasdaq's total revenue for the year ended December 31, 2002.

- Primex Auction System™ ("Primex"), which provides investors and participating market makers with an electronic, auction trading platform. Primex allows users to seek price improvement opportunities by electronically exposing orders to market participants who compete for the orders at prices at, and within, the prevailing national best bid or offer. Primex is operated pursuant to an agreement between Nasdaq and Primex Trading N.A., LLC, and began operation on December 17, 2001. Nasdaq imposes a monthly fee to access Primex, which will vary based on the method used to access the system. Nasdaq charges execution fees to parties executing trades on shares available in the system. No execution fees are charged for submitting orders that provide liquidity to the system. Nasdaq began charging access and execution fees for Primex on August 1, 2002. Primex accounted for less than 1% of Nasdaq's total revenue for the year ended December 31, 2002.

Trade Reporting Services—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 for the central collection of price and volume information concerning trades executed in those markets. Transactions in Nasdaq-listed securities, exchange-listed securities traded over-the-counter, and other equity securities traded over-the-counter have traditionally been reported to the ACT system, Nasdaq's automated trade reporting and reconciliation service that electronically facilitates the post-execution steps of price and volume reporting, comparison, and clearing of trades. A protocol establishes which of the two parties to the trade is responsible for trade reporting, and NASD rules govern the timeliness of trade submission and the information required on each trade report.

ACT provides three primary revenue-generating services: trade reporting, trade comparison, and risk management. The majority of trades reported to Nasdaq are locked-in externally from the ACT system, and are submitted for reporting purposes only. These transaction reports are assessed a nominal reporting fee. Trades that require ACT to match and lock-in the two parties to the trade generally are assessed a higher fee based upon the number of shares traded. A fee for the ACT risk management service is also applied to some of the transactions reported to ACT. This fee is assessed to the firms that clear for each of the parties to the trade, provided that the trading parties are not designated as self-clearing firms. A cap on ACT risk management fees was introduced in April 2000, limiting a clearing firm's monthly payment for each of its trading firms (correspondents) to $10,000 which, together with an increase in self-clearing activity by member firms, resulted in a decline in risk management revenue in 2002 and 2001 versus 2000.

Shortly after launching SuperMontage, Nasdaq launched Liquidity Tracker, an order routing system integrated with SuperMontage. Liquidity Tracker serves as a routing mechanism for securities listed on The Nasdaq Stock Market. It is intended primarily to attract large-sized orders, and affords the user an opportunity to gain access to the liquidity pool for a security without incurring significant market impact. The order routing algorithm for Liquidity Tracker is based on current trade information within ACT. Liquidity Tracker scans trading information from ACT to determine the best market participant to receive the order, and anonymously routes the order to that participant. Liquidity Tracker declines the order if there is not a qualifying market participant available. Liquidity Tracker launched on December 4, 2002 as a pilot and Nasdaq did not charge for the system until January 6, 2003. Nasdaq also launched several new data products in connection with the launch of SuperMontage, which are discussed in "—Market Information Services."

For the years ended December 31, 2002, 2001 and 2000, Nasdaq's total revenue from ACT was $78.6 million, $87.3 million and $100.0 million, respectively. ACT fees accounted for approximately 9.8% of Nasdaq's total revenue for the year ended December 31, 2002.

For the years ended December 31, 2002, 2001 and 2000, Nasdaq's total revenue from Transaction Services was $380.7 million, $412.1 million and $398.5 million, respectively. Transaction Services accounted for approximately 47.6% of Nasdaq's total revenue for the year ended December 31, 2002.

Market Information Services. 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 collects information, distributes it, and earns revenue in two roles. First, Nasdaq operates the exclusive Securities Information Process, or "SIP," for the collection and dissemination of best bid and offer (the "BBO") and last transaction information from all of the exchanges and markets that quote and trade in Nasdaq-listed securities (all are members of the UTP Plan). Second, in its role as a market, Nasdaq provides proprietary data products.

In its role as the SIP, Nasdaq collects and disseminates quotation and last sale information for all transactions in securities listed 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, the SIP consolidates 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 currently the exclusive SIP pursuant to the UTP Plan. Under the UTP Plan, each participant can quote and trade any security listed on The Nasdaq Stock Market. Nasdaq collects quotation and last sale information from competing exchanges (currently the Amex, the Chicago Stock Exchange, the Cincinnati Stock Exchange, the NASD's ADF and the Pacific Stock Exchange) and consolidates such information with the information for all the securities listed on The Nasdaq Stock Market.

As the SIP, Nasdaq sells this information to vendors in exchange for 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, including Nasdaq, their share of Tape Fees based on a combination of their respective trade volume and share volume.

Currently, the NASD is the official participant of record in the UTP Plan; however, the NASD has delegated voting authority to Nasdaq pursuant to the Delegation Plan for all UTP Plan matters. In anticipation of Exchange Registration, UTP Plan participants have submitted to the SEC an amendment to the UTP Plan that would, among other things, make Nasdaq a direct participant in the UTP Plan.

While Nasdaq is currently the exclusive SIP for the UTP Plan, it is engaged with the other UTP Plan participants in selecting a new SIP. This process is the result of the SEC's conditions for extending the UTP Plan beyond its March 2001 termination date. Nasdaq does not expect its net operating income to be affected if it no longer serves as a SIP because all SIP revenues are passed on to UTP Plan participants based on a combination of their trade volume and share volume (after deducting operating expenses). Any reduction in Nasdaq's total revenue since it will no longer be reimbursed for operating expenses is expected to be largely offset by a reduction in Nasdaq's actual expenses since it will no longer operate the UTP Plan.

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 securities listed on The Nasdaq National Market, 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. The Request-for-Proposal was mailed to prospective bidders, and eight bidders submitted proposals. Nasdaq did not submit a bid proposal. The UTP Plan participants have selected the proposal of the Cicada Corporation, in conjunction with the Sprint Corporation, as the leading candidate. The UTP Plan Participants are currently negotiating with Cicada to enter into an agreement for Cicada to succeed Nasdaq as the exclusive SIP to the Nasdaq UTP Plan.

Nasdaq and the other UTP Plan participants earn revenue from two SIP market information products. These products are designed to provide the varying levels of detail desired by different

broker-dealers and their customers. The first product is known as Level 1. This product provides subscribers with the current national BBO and most recent price at which the last sale or purchase was transacted for a specific security as well as the BBO from each exchange or market trading stocks listed on The Nasdaq Stock Market. Professional subscribers (e.g., broker-dealers and other employees of broker-dealers) to this product pay a monthly fee per terminal 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 (such as individual investors), with Level 1 information at a reduced fee calculated on a per query basis or a flat monthly fee per user. Weaker economic and market conditions in the last two years caused a substantial reduction in Level 1 revenue due to a decrease in demand for professional and non-professional per query service. The termination of Nasdaq's role as SIP will not affect Nasdaq's share of Level 1 revenue.

For the years ended December 31, 2002, 2001 and 2000, Nasdaq's revenue from Level 1 fees was $142.3 million, $161.8 million and $190.5 million, respectively. Nasdaq's Level 1 fees accounted for approximately 17.8% of Nasdaq's total revenue for the year ended December 31, 2002.

Currently, the second SIP market information product, the Nasdaq Quotation Dissemination Service ("NQDS"), provides subscribers with the BBO from each individual Nasdaq market maker and ECN and, through March 2003, also includes the BBO from each of the UTP Plan exchanges and markets trading Nasdaq-listed securities. All NQDS subscribers also subscribe to Level 1 to obtain consolidated UTP Plan and Nasdaq inside quotes and last transaction information. The fee for this service is priced on a per- terminal per month basis, with professional subscribers paying a higher monthly per terminal fee than non-professional customers. Weaker economic and market conditions and cost cutting by market participants caused a decline in NQDS professional subscriptions partially offset by growth in non-professional subscriptions in the fourth quarter of 2002.

Nasdaq intends to remove other UTP Plan exchanges from the NQDS data product in March 2003 and, upon Exchange Registration, NQDS will become a proprietary Nasdaq data product. Also upon Exchange Registration, the SIP will no longer administer NQDS and Nasdaq will no longer share related revenue with UTP Plan participants.

For the years ended December 31, 2002, 2001 and 2000, Nasdaq's revenue from NQDS fees was $37.5 million, $43.4 million and $47.3 million, respectively. NQDS fees accounted for approximately 4.7% of Nasdaq's total revenue for the year ended December 31, 2002.

Nasdaq, in its role as a stock market, has launched three new proprietary data products in conjunction with the launch of SuperMontage. SuperMontage has expanded Nasdaq's ability to offer market data to market participants that choose to display trading interest on Nasdaq that goes beyond the BBO. These new data products: Nasdaq DepthView,^SM PowerView,^SM and TotalView^SM (collectively referred to as the "ViewSuite" products), offer a wide array of quotation information to market data vendors and broker-dealer distributors. DepthView shows the aggregate size, by price level, of all Nasdaq market participants' quotations/orders that are in the top five price levels in SuperMontage. PowerView bundles NQDS and DepthView. TotalView offers the PowerView services and shows all Nasdaq market participants' quotations/orders that are in the top five price levels in SuperMontage, in addition to the aggregate size of all unattributed (i.e., providing pre-trade anonymity) quotes/orders at each of the top five price levels.

Each of DepthView, PowerView and TotalView is offered through distributors to professional subscribers for a monthly fee per terminal and DepthView and PowerView are offered to non-professional subscribers for a lower monthly fee per terminal. In addition, Nasdaq charges the distributor a monthly fee for each ViewSuite product. During 2003, Nasdaq is offering nine-month ViewSuite incentive pricing plans to promote widespread distribution of the new data products. Subscribers to this offer will be able to provide DepthView, PowerView, and/or TotalView to their entire Level-1 or NQDS populations for a reduced, fixed monthly fee.

On March 18, 2002, Nasdaq began distributing Nasdaq PostData,SM which is a data product with several different services. Volume PostSM displays the daily share volume figures of subscribing market participants for each Nasdaq-listed security for the prior trading day. Monthly Volume Summaries rank the top 50 market participants by industry sector, security type, or total and block volume. Daily Issue Data provides a summary for every Nasdaq-listed security of the previous day's activity, including price, total shares outstanding and dividend data. Nasdaq distributes PostData to data distributors for a per-subscriber charge, and to direct subscribers for a set fee. PostData provided less than 1% of Nasdaq's total revenue for the year ended December 31, 2002.

For the years ended December 31, 2002, 2001 and 2000, Nasdaq's total revenue from Market Information Services was $202.4 million, $243.9 million and $261.7 million, respectively. Market Information Services accounted for approximately 25.3% of Nasdaq's total revenue for the year ended December 31, 2002.

Corporate Client Group. The Corporate Client Group provides customer support services and products to Nasdaq-listed companies and is responsible for obtaining new listings on The Nasdaq Stock Market. The Nasdaq Stock Market has historically attracted traditional growth companies and, as of December 31, 2002, was home to the highest percentage of publicly-traded technology and service companies in the U.S.

On December 31, 2002, there were 3,659 companies listed on The Nasdaq Stock Market. For the year ended December 31, 2002, 121 new companies listed on The Nasdaq Stock Market, 86 on The Nasdaq National Market and 35 on The Nasdaq SmallCap Market. For the year ended December 31, 2001, 145 new companies listed on The Nasdaq Stock Market, 116 on The Nasdaq National Market, and 29 on The Nasdaq SmallCap Market.

During 2002, 51 IPOs, approximately 56.7% of all IPOs on primary U.S. markets during this period, listed on The Nasdaq Stock Market. These IPOs raised over $4.5 billion, approximately 16.4% of the total dollar value raised in U.S. IPOs during this period. Of all U.S. IPOs during the year ended December 31, 2001, 63 companies, approximately 62% of U.S. IPOs during this period, listed on The Nasdaq Stock Market. The reduction in The Nasdaq Stock Market's percentage of U.S. IPOs during 2002 reflects a continued decline in general market and economic conditions, which has impacted the ability of traditional growth companies to access the public equity markets over the last few years. In addition, 2002 continued a trend from the prior year in which increasing numbers of IPOs are of companies being spun-off from public companies that, in general, have not operated in traditional growth industries. Of the 14 spin-offs of public companies during 2002, 12 of the spin-offs were subsidiaries of NYSE-listed companies, 10 of which also listed on the NYSE. These 14 spin-offs accounted for approximately 15.6% of all U.S. IPOs and approximately 44.2% of the total dollar value raised in U.S. IPOs during this period. While these figures were generally comparable to spin offs in 2001, the number of IPO spin-offs from public companies in 2000 accounted for only 5% of U.S. IPOs and approximately 13% of the total dollar value raised in U.S. IPOs during that period. Forty-seven of the 51 IPOs that listed on The Nasdaq Stock Market during 2002 have listed on The Nasdaq National Market and four companies have listed on The Nasdaq SmallCap Market.

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; (ii) the consolidation of listings due to merger and acquisition activity; and (iii) Nasdaq-listed companies switching their listing to another stock market. See "—Competition—Corporate Client Group."

For the year ended December 31, 2002, 379 issuers ceased being listed on The Nasdaq National Market and 192 issuers ceased being listed on The Nasdaq SmallCap Market. By comparison, 537 issuers ceased being listed on The Nasdaq National Market and 233 issuers ceased being listed on The Nasdaq SmallCap Market for the year ended December 31, 2001. Delistings in 2001 would have been higher but for a suspension by Nasdaq of the minimum bid price and market value of public float

listing requirement during the period September 26, 2001 until December 31, 2001. This suspension was in response to market uncertainty in the wake of the September 11, 2001 terrorist attacks. On January 2, 2002, the minimum bid price and market value of public float requirements were reinstated. The time periods for review of non-compliance, which are discussed below, began on January 2, 2002 for all issuers, including those that were not in compliance with the requirements as of September 26, 2001.

For the year ended December 31, 2002, 139 issuers on The Nasdaq National Market and 141 issuers on The Nasdaq SmallCap Market were delisted by Nasdaq for failure to satisfy listing standards; 42 issuers on The Nasdaq National Market and four issuers on The Nasdaq SmallCap Market were delisted as a result of switches to a competing market; and 198 issuers on The Nasdaq National Market and 47 issuers on The Nasdaq SmallCap Market ceased being listed for other reasons, including mergers and acquisitions. An additional 229 issuers transferred from one tier of The Nasdaq Stock Market to the other tier. The large majority of these transfers between tiers were companies moving from The Nasdaq National Market to The Nasdaq SmallCap Market due to a change in Nasdaq's listing standards permitting issuers that no longer meet the requirements of The Nasdaq National Market to phase down to The Nasdaq SmallCap Market, as discussed in more detail below.

The rules concerning the delisting of issuers from The Nasdaq Stock Market for failure to satisfy the minimum bid price requirement were amended in March 2003. An issuer is subject to delisting if its security falls below the minimum bid price requirement for 30 business days. Under a pilot program scheduled to expire on January 1, 2005, issuers listed on The Nasdaq National Market have 180 days to regain compliance with the minimum bid price requirement and are thereafter permitted to phase-down to The Nasdaq SmallCap Market. The pilot program also provides issuers listed on The Nasdaq SmallCap Market with 180 days to regain compliance, which may be extended for up to 270 days if the issuer complies with certain other initial listing requirements for The Nasdaq SmallCap Market. In addition to the pilot program, Nasdaq permanently changed the minimum continued listing bid price requirement for issuers listed on The Nasdaq National Market from $3 to $1 if the issuers meet certain qualifications for continued listing on the National Market.

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 Stock Market includes a listing application fee and a total shares outstanding fee. The estimated service period for initial listing fees is six years. For the years ended December 31, 2002, 2001 and 2000, Nasdaq's revenue from initial listing fees was $33.6 million, $35.7 million and $33.9 million, respectively. Nasdaq's initial listing fee revenue accounted for approximately 4.2% of Nasdaq's total revenue for the year ended December 31, 2002.

The fee for LAS is based on the total shares outstanding, which Nasdaq reviews quarterly. The estimated service period for LAS fees is four years. For the years ended December 31, 2002, 2001 and 2000, Nasdaq's revenue from LAS fees was $37.5 million, $35.9 million and $33.6 million, respectively. Nasdaq's LAS fee revenue accounted for approximately 4.7% of Nasdaq's total revenue for the year ended December 31, 2002.

Annual fees for securities listed on The Nasdaq Stock Market are based on total shares outstanding. For the years ended December 31, 2002, 2001 and 2000, Nasdaq's revenue from annual listing fees was $102.8 million, $83.1 million and $81.1 million, respectively. Nasdaq's annual listing fees accounted for approximately 12.9% of Nasdaq's total revenue for the year ended December 31, 2002.

Nasdaq has instituted a new fee structure that increased initial and annual listing fees for companies on The Nasdaq National Market (effective January 1, 2002) and The Nasdaq SmallCap Market (effective January 1, 2002 and revised January 1, 2003). The revenue generated from the fee increases has been used in part to fund enhancements to the services offered to Nasdaq-listed companies, including the establishment of a Market Intelligence Desk.SM

Following the initial listing, Nasdaq provides customer support services, products, and programs to Nasdaq-listed companies. In 2002, Nasdaq created the Market Intelligence Desk, a "one-stop-shop" for information that provides rapid response to corporate client queries from a centralized location. The Market Intelligence Desk personnel use computer-aided telephony and proprietary and non-proprietary information services to provide support to senior executives and board members of Nasdaq-listed companies. Each Nasdaq-listed company has a private toll-free line to access the Market Intelligence Desk. Executives of Nasdaq-listed companies also 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 securities, 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. A product group has been established to begin the development and commercialization of new products and services focused on the corporate market, as well as increased financial newsmedia coverage of Nasdaq-listed companies.

Each Nasdaq-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, 2002, 2001 and 2000, Nasdaq's total revenue from the Corporate Client Group was $176.7 million, $156.1 million and $149.3 million, respectively. The Corporate Client Group accounted for approximately 22.1% of Nasdaq's total revenue for the year ended December 31, 2002.

Other Products and Markets

Nasdaq Financial Products. Nasdaq Financial Products is responsible for introducing products that extend and enhance the Nasdaq brand. The department oversees the development and marketing of new Nasdaq financial products and associated derivatives, the licensing and listing of third-party structured products and the listing of third-party-sponsored exchange traded funds ("ETF"s). These products increase investments in companies listed on The Nasdaq Stock Market and this can contribute to revenue for Nasdaq's Transaction Services, Market Information Services and Corporate Client Group LAS revenues.

Launched in January 1985, the Nasdaq-100 Index® includes the largest, top 100 non-financial companies listed on The Nasdaq Stock Market. It is the benchmark for about 30 domestic and international mutual funds and more than 120 structured investment products in 28 countries. A structured product is a specialized security designed to respond to specific investment objectives, such as risk reduction, leverage or diversification of current investments or tax management.

The Nasdaq-100 Index Tracking StockSM ("QQQ"SM), the ETF based on the Nasdaq-100 Index, began trading in 1999 under the symbol QQQ. An ETF is an investment company organized to track an index and to allow for secondary market trading. For the year ended December 31, 2002, QQQ's average daily share volume was 88.7 million and its average daily dollar volume was approximately $2.6 billion. QQQ is the most actively traded ETF in the world and the most heavily traded stock in the U.S. in terms of dollar volume. As of December 31, 2002, the QQQ Trust had issued approximately

696 million shares and the assets under management had reached $17 billion. QQQ's equity options were also among the most heavily traded options in the U.S. in 2002.

Major stock markets in the U.S., including the NYSE, Amex, Boston Stock Exchange, Chicago Stock Exchange, Cincinnati Stock Exchange and the Philadelphia Stock Exchange, have been licensed by Nasdaq to use Nasdaq trademarks in connection with trading QQQ under the UTP Plan. Every major options market in the U.S. has also been licensed by Nasdaq to use Nasdaq trademarks to trade the equity options on QQQ. Nasdaq receives license fees for its trademark licenses that vary by product based on assets under management or number of contracts issued. In addition to license fees, Nasdaq is entitled to reimbursement from the QQQ Trust for marketing activities designed to promote the Trust.

In November 2002, Nasdaq Europe S.A./N.V. listed and began trading the Nasdaq-100 European TrackerSM ("EQQQ"SM)—a product based on the same stocks that are included in the QQQ. EQQQ is managed by Nasdaq Financial Product Services (Ireland), Limited, administered by AIB/BNY Fund Management (Ireland), Ltd., with AIB/BNY Trust Company, Ltd. as its Custodian. As of December 2002, EQQQ was registered in the United Kingdom, Germany, Belgium, and Ireland with anticipated registrations in Italy and Switzerland.

Also in November 2002, BLDRS℠, a new family of ETFs based on The Bank of New York ADR Indexes,℠ were listed on The Nasdaq Stock Market. The BLDRS Funds were the first ETFs listed on The Nasdaq Stock Market and the first ETFs based on American Depositary Receipts ("ADRs"). The Bank of New York serves as trustee and index provider of these Funds.

For the years ended December 31, 2002, 2001 and 2000 Nasdaq's total revenue from Nasdaq Financial Products was $28.1 million, $30.6 million and $11.7 million, respectively. Nasdaq Financial Products accounted for approximately 3.5% of Nasdaq's total revenue for the period ended December 31, 2002.

Nasdaq InterMarket. The Nasdaq InterMarket is an electronic marketplace composed of NASD members that quote and 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, a trading system that is very similar to Nasdaq's former SuperSoes trading system, allows broker-dealers to enter and execute trades via the Nasdaq Workstation II, an application programming interface or CTCI. Market makers and order entry firms can use CAES to enter marketable limit orders and market orders for automatic response and automatic execution. The Intermarket Trading System allows market markers to trade with exchange specialists. Users may also internalize orders within their own systems and report that trade to Nasdaq InterMarket.

For the years ended December 31, 2002, 2001 and 2000, Nasdaq's total revenue from Nasdaq InterMarket was $38.6 million, $32.5 million and $21.9 million, respectively. Nasdaq InterMarket revenue accounted for approximately 4.8% of Nasdaq's total revenue for the year ended December 31, 2002. Approximately 94.6% of the revenue generated from the Nasdaq InterMarket is derived from the sale of data and is included in Market Information Services revenue, and the remaining revenue is derived from transaction service fees for CAES and Intermarket Trading System transactions and included in Transaction Services revenue.

All Nasdaq InterMarket trades are reported and disseminated in real-time to the Consolidated Tape Association, and as such, Nasdaq shares in the Tape Fees generated by the Consolidated Tape Association. Two NASD members that are major market makers and one ECN report the majority of trades. Other ECNs report trades through Nasdaq systems to the Consolidated Tape Association or to other Intermarket Trading System participants, such as regional exchanges. NASD members who trade exchange-listed securities away from the exchanges account for a significant amount of Nasdaq

InterMarket trading activity. Nasdaq shares a portion of the Tape Fees received for Nasdaq InterMarket transactions with InterMarket participants.

In anticipation of Exchange Registration, Nasdaq has been negotiating with participants in the Consolidated Tape Association and the Intermarket Trading System for admission into those plans as a separate SRO. Nasdaq may be required to pay a fee, which has yet to be determined, for admission into the Consolidated Tape Association. After Exchange Registration, Nasdaq InterMarket will likely continue to trade securities listed on the NYSE and Amex in much the same manner as it does today with the exception that it may no longer be permitted to accept trade reports that are at an inferior price to the quotations of other market centers. Nasdaq's inability to accept such trade reports may decrease Nasdaq's percentage of trades and volume in these securities, reducing Nasdaq's revenues.

Nasdaq Europe S.A./N.V. In March 2001, Nasdaq acquired an approximate 68.2% ownership interest in the European Association of Securities Dealers S.A./N.V. ("EASDAQ"), a pan-European stock market headquartered in Brussels. Nasdaq has since diluted its interest through the introduction of other strategic partners as shareholders. In connection with this investment, Nasdaq renamed EASDAQ as Nasdaq Europe S.A./N.V. ("Nasdaq Europe") as part of a plan to restructure it into a globally-linked pan-European market. As of December 31, 2002, Nasdaq owned approximately a 59.4% interest in Nasdaq Europe. As of December 31, 2002, 40 companies were listed on Nasdaq Europe and eight companies were admitted for trading. The average monthly turnover volume on Nasdaq Europe during 2002 was €26.2 million. In October 2002, Nasdaq Europe successfully launched SuperMontage Europe, that is based on the same principles as SuperMontage in the U.S., customized to European trading practices.

Nasdaq Europe is investigating strategic partnership opportunities with foreign securities exchanges and other market participants to expand its leadership in technology-driven price discovery systems and to utilize its brand recognition. On October 30, 2002, Nasdaq Europe, and the Berlin and Bremen Stock Exchanges, as well as comdirekt bank, Commerzbank and Dresdner Bank, signed definitive agreements to recapitalize Bremen Wertpapierbörse AG ("BWB AG"), a German stock exchange, that will be rebranded as "Nasdaq Deutschland AG" and that will be marketed under the Nasdaq brand. Nasdaq Deutschland began trading in German and international blue chip and growth stocks on March 21, 2003. Nasdaq Europe will initially hold a 50% equity stake, Dresdner Bank will hold a 15% equity stake, comdirekt bank and Commerzbank will each hold a 7.5% equity stake, and the Berlin and Bremen Stock Exchanges will each hold a 10% equity stake. See also "Consolidated Financial Statements—Notes 2 and 17." Nasdaq anticipates that discussions with other foreign institutions will continue, but cannot predict the results of any such discussions.

Nasdaq Europe is still in its nascent stages and has generated only operating losses since the acquisition by Nasdaq. Nasdaq Europe's future growth is dependent on such things as firms connecting to Nasdaq Europe's trading platform and using its trading facilities, as well as a reversal of the current weakness in European equity markets. Nasdaq Europe's main competitors for listings and trading include the three primary exchanges in Europe: Deutsche Börse AG, Euronext N.V. and the London Stock Exchange. See "—Risk Factors—Nasdaq may not be successful in executing its international strategy."

Nasdaq Japan. In 1999, the NASD and SOFTBANK Corp. of Japan entered into a joint venture, subsequently named Nasdaq Japan, to develop an electronic stock market in Japan. The NASD later transferred its interest in Nasdaq Japan to Nasdaq Global Holdings, a wholly-owned subsidiary of Nasdaq, which operated the market as a new market section of the Osaka Securities Exchange (the "OSE"). On August 16, 2002, the Board of Directors of Nasdaq Japan voted to take the company to dormant status, effectively ceasing operations. Shareholders of Nasdaq Japan subsequently ratified this decision. Nasdaq Japan currently is in liquidation and is expected to be completely dissolved in the second quarter of 2003. Companies listed on the Nasdaq Japan Market retained their listing on the

OSE and experienced no disruption to trading. See "Consolidated Financial Statements—Notes 2 and 8."

Nasdaq Liffe Markets, LLC. On June 1, 2001, Nasdaq and the London International Financial Futures and Options Exchange ("LIFFE"), a member of the Euronext (N.V.) Group, formed Nasdaq Liffe Markets, LLC ("NQLX"), a U.S. joint venture company in which Nasdaq owns a 50% interest. On November 8, 2002, NQLX began listing futures contracts on individual equity securities with 43 members. As of December 31, 2002, NQLX had traded in total approximately 125,000 contracts on 24 security futures products, 20 individual equity securities and four exchange traded funds. Through the end of 2002, NQLX operated under a fee holiday during which NQLX had no revenue. This fee holiday ended on March 1, 2003. Nasdaq accounts for its investment in NQLX under the equity method of accounting.

Nasdaq Insurance Agency, LLC. On December 31, 2002, Nasdaq purchased the NASD's 50% interest in The NASD Insurance Agency, LLC, subsequently renamed The Nasdaq Insurance Agency, LLC ("NIA"). AIG NJV, Inc., a wholly-owned subsidiary of American International Group, Inc., owns the other 50% interest in NIA. NIA provides insurance brokerage services and specializes in the directors and officers liability insurance market. Nasdaq accounts for its investment in NIA under the equity method of accounting.

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 U.S. national securities exchange. At present, the OTC Bulletin Board is only a quotation service without any execution facilities. Companies do not list on the OTC Bulletin Board; rather, 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, these companies are required to be current with their periodic filings. Market makers are charged a fee per position and 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. There are no fees charged to companies whose securities are quoted on the OTC Bulletin Board. The OTC Bulletin Board revenue accounted for less than 1% of Nasdaq's total revenue for the years ended December 31, 2002, 2001 and 2000, respectively. Revenue generated from the OTC Bulletin Board is included in Transaction Services revenue.

In conjunction with the process of seeking Exchange Registration, the Nasdaq Board of Directors and the NASD Board of Governors (collectively, the "Boards"), approved several rule changes that are designed to replace the OTC Bulletin Board with a new listed market that will be called the "BBX." First, the Boards approved a program for Nasdaq to enter into a listing agreement with future BBX issuers (which will be primarily drawn from existing OTC Bulletin Board companies) and impose listing standards to ensure the quality of these issuers. Second, both Boards approved the creation of automated order delivery and execution systems for the BBX. Finally, to accompany the new listing standards and order delivery system, the Boards approved enhanced market rules that include limit order protection, short interest reporting, and intraday trading halt authority. Nasdaq plans to submit exemption requests that would allow Nasdaq to continue to operate the OTC Bulletin Board for a limited period after Exchange Registration, with the OTC Bulletin Board to be phased out six months after the BBX is launched. 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 or will be able to launch the BBX. If the SEC does not approve the exemption request, these securities could continue to trade over the counter through a non-Nasdaq facility after Exchange Registration.

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. Nasdaq provides updated information on the pricing of its products and services on its website at *www.nasdaqtrader.com*. Information on Nasdaq's website is not a part of this Form 10-K. See also "—Competition" and "—Risk Factors-Competition by regional exchanges and the ADF may reduce Nasdaq's transactions, trade reporting and market information revenue and impact the ability of SuperMontage to increase Nasdaq's market share of transactions in Nasdaq-listed securities."

Technology

Nasdaq believes that the effective use of technology is the key to the future of financial markets. 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. 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 an electronic screen-based environment. The Nasdaq network has handled trade volumes of over two billion shares daily and over 4,000 transactions per second and is designed to maximize transaction reliability and network security across each of the most critical system services that comprise The Nasdaq Stock Market, including quotation, order processing, trade reporting and market data dissemination. Furthermore, Nasdaq's system has substantial reserve capacity to handle far greater levels of activity and will further expand bandwidth to maximize its ability to provide an efficient, rapid, reliable trading environment for its market participants. Continual systems improvements provide cost effective and efficient access to multiple market information data and rapid market response capabilities. Nasdaq also employs technology to maximize its ability to communicate with investors, issuers, traders, the media and others.

Competition

The securities markets are intensely competitive and they are expected to remain so. Nasdaq competes both domestically and 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., services to listed companies), reputation and price. In the U.S., Nasdaq is one of the leaders in each of its principal businesses. Nonetheless, Nasdaq expects that current or new markets and exchanges will continue to compete aggressively against Nasdaq.

In addition, Nasdaq has formed alliances in certain key financial centers around the world as part of a strategy to build on its strong, worldwide brand name. 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.

Transaction Services. Nasdaq's core trading services are designed to provide access to The Nasdaq Stock Market, execution services that are designed to provide quoting and trading capabilities and reporting services such as trade reporting and risk management. Nasdaq expects to face competition from a number of different sources in providing these services including:

- Market participants that have been, or have announced plans to begin, reporting trades to competing regional stock exchanges and the ADF rather than to Nasdaq, thereby reducing both Transaction Services and Market Information Services revenue. See "—Risk Factors—

Competition by regional exchanges and the ADF may reduce Nasdaq's transactions, trade reporting and market information revenue and impact the ability of SuperMontage to increase Nasdaq's market share of transactions in Nasdaq-listed securities;"

- ECNs that have been consolidating to form larger service providers. During 2002, Island ECN ("Island") and Instinet merged to form the largest ECN and two of the largest users of ACT for trade reporting, Archipelago and RediBook, merged. Any continued consolidation that created a dominant service provider could diminish Nasdaq's competitive position;
- ECNs that obtain registration as exchanges and compete for Transaction Services and Market Information Services, and potentially, for listings. Recently, the Pacific Stock Exchange established the Archipelago Exchange as its equities trading facility. Archipelago began quoting and reporting certain of its trades to the Archipelago Exchange in February 2003. Island, another ECN, has applied to the SEC for registration as a national securities exchange. See "—Risk Factors—Nasdaq's revenue would be adversely affected by ECNs that register as exchanges;"
- Competing stock exchanges that are permitted by the SEC to regulate trading in their markets at a lower cost than Nasdaq. As a result they may be able to attract order flow from The Nasdaq Stock Market to the other exchanges because of such lower regulatory costs; and
- 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.

To address competitive concerns, 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 trade reporting services. For each component, Nasdaq has attempted to make pricing more attractive in order to retain usage of its services. In addition, Nasdaq has enhanced its execution services through the implementation of SuperMontage and related products.

Market Information Services. Nasdaq's Market Information Services revenue is under competitive threat from other securities exchanges that trade Nasdaq-listed securities, including the established regional exchanges and the ADF. Current SEC regulations permit these regional exchanges and the ADF to quote and trade certain securities that are not listed on a national securities exchange, including securities listed on The Nasdaq Stock Market, pursuant to the UTP Plan. Nasdaq's UTP Plan entitles these exchanges and the ADF to a share of UTP Plan Tape Fees, in proportion to such exchange's share of trading as measured by share volume and number of trades. Currently, the Amex, the Chicago Stock Exchange, the Cincinnati Stock Exchange, the ADF, and the Pacific Exchange quote and trade Nasdaq-listed securities pursuant to the UTP Plan. The Boston Stock Exchange and Philadelphia Stock Exchange have indicated their intent to commence trading in Nasdaq-listed securities pursuant to the UTP Plan. In the past, participants in the UTP Plan have established payment for order flow arrangements with their members and customers through sharing tape revenue.

The net effect of these additional competitors, along with continuing advances in technology and regulatory changes may increase competitive pressure on Nasdaq. In February 2002, Island began reporting its trades to the Cincinnati Stock Exchange, a UTP Plan participant. Published reports indicate that the Cincinnati Stock Exchange gained Island's business by committing to lower trade reporting fees and share with Island a substantial portion of Tape Fees that Cincinnati earns from Island's trades. In July 2002 the SEC abrogated all member tape sharing arrangements by UTP Plan participants for securities listed on The Nasdaq Stock Market. While certain UTP Plan participants have filed revised Tape Fee sharing proposals for Nasdaq-listed securities with the SEC, no proposals have yet been approved by the SEC. Nasdaq's revenue would be further affected if UTP Plan participants obtain SEC approval to begin sharing tape revenues with their members and customers.

Nasdaq historically has used Tape Fees to pay market regulation expenses that help ensure the quality and fairness of The Nasdaq Stock Market and compliance with all applicable rules and regulations. Despite this imperative, Nasdaq reduced certain trade reporting fees and began sharing Tape Fees with participants during 2002. Nasdaq's Tape Fee sharing program was abrogated along with all others in July 2002. To remain competitive, Nasdaq's trade reporting fees or Tape Fee sharing may be adjusted in the future to respond to competitive pressures. See "—Risk Factors—Competition by regional exchanges and the ADF may reduce Nasdaq's transactions, trade reporting and market information revenue and impact the ability of SuperMontage to increase Nasdaq's market share of transactions in Nasdaq-listed securities" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Business Environment—2003 Outlook."

ECNs pose an additional potential challenge to Nasdaq's Market Information Services business because they may register as securities exchanges. As noted above, the Archipelago Exchange has been established as the equities trading facility of the Pacific Exchange and Island, now merged with Instinet, has applied for exchange registration and expressed interest in becoming a UTP Plan participant. In this case, they would be eligible for a share of the UTP Plan Tape Fees generated by the sale of Nasdaq's market information products, and their use of Nasdaq's systems could diminish. See "—Risk Factors—Nasdaq's revenue would be adversely affected by ECNs that register as exchanges."

Nasdaq is responding aggressively to competition from existing and potential UTP Plan exchanges. Nasdaq is working to ensure that all exchanges are covered by uniform regulatory standards and bear appropriate regulatory costs. Nasdaq also regularly examines its fee structure to insure that costs are fairly distributed among participants and that fees adequately cover the cost of regulation. Nasdaq has also introduced several new data products that are designed to provide market participants with new and more extensive market information, and to provide Nasdaq with new revenue streams. See "—Market Information Services."

Corporate Client Group. 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, communicating better 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 three years, 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.

Nasdaq competes primarily with the NYSE for larger company listings on The Nasdaq National Market. As of December 31, 2002, there were 2,824 companies listed on The Nasdaq National Market with an aggregate domestic market capitalization of $1.9 trillion compared to 2,783 companies listed on the NYSE with an aggregate domestic market capitalization of $9.0 trillion. Rule 500 of the NYSE historically has made it very difficult for companies to voluntarily delist from the NYSE. As currently written, Rule 500 allows 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 is anti-competitive and continues to constitute an impediment to Nasdaq's ability to compete for NYSE

listings. During 2002, no companies transferred from the NYSE to The Nasdaq Stock Market, while 43 companies switched to the NYSE from The Nasdaq National Market.

Nasdaq competes with Amex for listings on both The Nasdaq National Market and The Nasdaq SmallCap Market. During the year ended December 31, 2002, four companies transferred from Amex to The Nasdaq National Market. During this period, three companies switched to Amex from The Nasdaq SmallCap Market. In addition, the Pacific Stock Exchange has announced that it intends in the future to seek listings on its Archipelago Exchange. It is unclear at this time whether this type of market will become a significant competitor for Nasdaq.

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 private company.

Other Markets. The Nasdaq Stock Market competes for trading volume in NYSE and Amex-listed securities by offering customers quality trade executions at a reasonable price and derives revenue from the sale of related data. A significant amount of investor self-directed, on-line trading activity in listed securities is currently 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 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 Fees Nasdaq receives as a participant in the Consolidated Tape Association Plan.

Employees

As of March 1, 2003, Nasdaq had 1,290 employees. 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.

Nasdaq Website and Availability of SEC Filings

Nasdaq's Internet website is *www.nasdaq.com.* Information on Nasdaq's website is not a part of this Form 10-K. Nasdaq will make available free of charge on its website, or provide a link to, its Forms 10-K, Forms 10-Q and Forms 8-K, and any amendments to these documents, that are filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after Nasdaq electronically files such material with, or furnishes it to the SEC. To access these filings, go to Nasdaq's website and click on "Inside NASDAQ," then click on "Investor Relations," then click on "SEC Filings." This link allows you to view Nasdaq's SEC filings.

Service, Regulatory and Technology Contractual Relationships with the NASD, NASDR and Amex

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 certain financial services, real estate, legal, information services and corporate and administrative services. The NASD and Nasdaq entered into a Separation and Common Services Agreement, dated as of January 1, 2002 (the "New Separation Agreement"), which replaced an interim Separation and Common Services Agreement executed in 2000 (the "Interim Agreement"). The services to be provided to Nasdaq by the NASD under the New Separation Agreement are limited to certain finance, technology infrastructure, facilities sharing and legal, which is substantially more limited than what was previously provided by the NASD under the Interim Agreement. Under the New

Separation Agreement, Nasdaq pays to the NASD the costs of the services provided, including any incidental expenses associated with such services. Nasdaq's costs for services provided by the NASD in 2002 were approximately $5.1 million. Nasdaq anticipates that the annual costs for services under the New Separation Agreement will drop in future years as Nasdaq reviews the provision of these services and continues to internalize more of these services or seeks alternative third party providers. See "—Risk Factors—Lack of operating history as for-profit entity and 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 13. Certain Relationships and Related Transactions."

On June 28, 2000, Nasdaq and NASD Regulation, Inc. ("NASDR"), a wholly-owned subsidiary of the NASD, signed a Regulatory Services Agreement pursuant to which NASDR or its subsidiaries would provide regulatory services to Nasdaq and its subsidiaries commencing upon the effectiveness of Exchange Registration. As a result, no services have been performed under this agreement. Pursuant to the terms of the Regulatory Services Agreement, the services provided will be of the same type and scope as are currently provided by NASDR to Nasdaq under the Delegation Plan for a term of ten years. Each regulatory 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. In 2002, Nasdaq paid NASDR approximately $76.7 million for regulatory services provided pursuant to the Delegation Plan.

On February 6, 2002, Nasdaq, the NASD, and Amex entered into a Technology Transition Agreement to provide for the sharing of certain administrative and regulatory technologies between Nasdaq and Amex and the provision of certain technology services by Nasdaq to Amex. This agreement replaces the existing technology arrangements among the parties that resulted from the NASD's acquisition of Amex in 1998. Depending upon the applicable service or technology, the term of the agreement ranges between three months and two years while Amex reconstructs these services and technologies in-house, with an option for Amex to extend the term for certain services for up to one year. Pursuant to this agreement, Amex will pay Nasdaq the direct costs of the services provided by Nasdaq, plus certain administrative costs. In addition, this agreement establishes a fund, administered by the NASD, to pay the costs incurred by Nasdaq, the NASD and Amex in the implementation of this agreement. Nasdaq and the NASD have each agreed to contribute up to $14.5 million to this fund.

The parties also entered into a Master Agreement on February 6, 2002 to govern certain non-technology related matters among the parties and their respective affiliates. This agreement, among other things, sets forth the terms of certain trading rights between Nasdaq and Amex. See "—Risk Factors—Lack of operating history as for-profit entity and 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 13. Certain Relationships and Related Transactions."

Executive Officers

The executive officers of Nasdaq are as follows:

Name	Age	Position
Hardwick Simmons	62	Chairman of the Nasdaq Board; Chief Executive Officer
Richard G. Ketchum	52	President and Deputy Chairman
Alfred R. Berkeley, III	58	Vice Chairman
David Weild IV	46	Vice Chairman and Executive Vice President — Corporate Client Group
Adena T. Friedman	33	Executive Vice President — Data Products
Steven Dean Furbush	44	Executive Vice President — Transaction Services
William R. Harts	46	Executive Vice President — Corporate Strategy
John L. Hilley	55	Executive Vice President and Chairman and Chief Executive Officer of Nasdaq International
John L. Jacobs	44	Executive Vice President of Nasdaq Financial Products and Worldwide Marketing
Edward S. Knight	52	Executive Vice President and General Counsel
Steven J. Randich	40	Executive Vice President Operations & Technology and Chief Information Officer
Denise B. Stires	40	Executive Vice President — Worldwide Marketing and Investor Services
David P. Warren	49	Executive Vice President — Chief Financial Officer

Hardwick Simmons, a member of the Nasdaq Board, became Chairman of the Nasdaq Board in September 2001 and has been Chief Executive Officer ("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. Prior to joining Prudential Securities in 1991, Mr. Simmons was President of the Private Client Group at Shearson Lehman Brothers, Inc.

Richard G. Ketchum, a member of the Nasdaq Board, was elected to the Nasdaq Board in September 2001 and has been President of Nasdaq since July 2000 and Deputy Chairman since December 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, Chief Operating Officer of the NASD since 1993 and Executive Vice President of the NASD since 1991.

Alfred R. Berkeley III became Vice Chairman of Nasdaq in 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.

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, an investment and brokerage firm, including President of Prudential Securities.Com from 2000 to 2001, Managing Director and Head of High Technology Investment Banking from 1997 to 2000, Managing Director of Investment Banking and Head of Corporate Finance from 1995 to 1997, and Managing Director and Head of the Global Equity Transactions Group from 1990 to 1995.

Adena T. Friedman became Executive Vice President of Nasdaq Data Products in January 2002 and oversees Nasdaq's Market Information Services. Prior to her current position, Ms. Friedman was Senior Vice President of Nasdaq Data Products from January 2001 to January 2002, Vice President of OTC Bulletin Board, Mutual Fund Quotation Service and NasdaqTrader.com from January 2000 to January 2001, Director of OTC Bulletin Board and Mutual Fund Quotation Service from August 1997 to January 2000, and Marketing Manager overseeing Nasdaq's marketing efforts to broker-dealers from April 1995 to August 1997. Ms. Friedman joined Nasdaq in 1993.

Steven Dean Furbush became 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 2001, Managing Director of Nasdaq InterMarket from October 1999 to October 2000, and Chief Economist from June 1995 to October 1999.

William R. Harts became Executive Vice President of Nasdaq Corporate Strategy in January 2002. Prior to joining Nasdaq, Mr. Harts was a Managing Director at Salomon Smith Barney, a global investment banking firm, from October 1991 to November 2001. As a Managing Director, Mr. Harts served at various times as Head of Strategic Business Development for the Global Equity Division and Head of the Portfolio Trading Department. Mr. Harts served as a Director and Vice Chairman of the Philadelphia Stock Exchange from March 1994 to June 1999.

John L. Hilley became Executive Vice President of Nasdaq and Chairman and CEO of Nasdaq International in 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.

John L. Jacobs became Executive Vice President of Nasdaq Financial Products and Worldwide Marketing in July 2002 and oversees Nasdaq's Financial Products business and various marketing activities. Mr. Jacobs serves as CEO of Nasdaq Financial Products, Inc. and Chairman of Nasdaq Financial Product Services Ireland Limited. Prior to his current position, Mr. Jacobs served as Senior Vice President of Worldwide Marketing and Financial Products since January 26, 2000 and as Vice President of Investor Services and Worldwide Marketing since January 1997. Mr. Jacobs joined Nasdaq in 1983.

Edward S. Knight became 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 J. 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.

Denise B. Stires became Executive Vice President of Worldwide 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.

David P. Warren became Executive Vice President and Chief Administrative Officer of Nasdaq in January 2001 and Chief Financial Officer ("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 January 1998 to December 2000, Deputy Treasurer of the State of Connecticut from March 1995 to January 1998 and a Vice President at CSFB, a financial services firm, from 1987 to 1995.

Risk Factors

This Form 10-K 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 Form 10-K.

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 regional exchanges, ECNs, the ADF or other alternative trading systems 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 information 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 revenue 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 price levels of securities. A continuation of the weak economic conditions of the past several years or a worsening of the economy or the securities markets could result in a further decline in trading volume. Nasdaq is also particularly affected by declines in trading volume in technology-related securities because a significant portion of its customers trade in these types of securities and a large number of technology-related companies are listed on The Nasdaq Stock Market. A decline in trading volume would lower revenue from Transaction Services and Market Information Services, and Nasdaq's profitability may be adversely affected if it is unable to reduce costs at the same rate. A continuation of the current downturn in the initial public offering market is also likely to have an adverse effect on Nasdaq's revenue, including, in particular, revenue from listing fees. For example, in the year ended December 31, 2002, 51 IPOs were brought to market on The Nasdaq Stock Market compared to 63 in the year ended December 31, 2001. There also were 571 companies delisted during 2002.

Substantial listing competition could reduce Nasdaq's revenue.

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 50.9% of total dollar volume traded on The Nasdaq Stock Market for the year ended December 31, 2002. While the loss of one or more of these issuers would result in a decrease in revenue from Nasdaq's Corporate Client Group, such a loss would cause an even more

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significant reduction in revenue from Nasdaq's Transaction Services and Market Information Services. The reduction in initial listings or the loss of a top issuer could have an adverse effect on Nasdaq's business, financial condition, or operating results.

Competition by regional exchanges and the ADF may reduce Nasdaq's transactions, trade reporting and market information revenue and impact the ability of SuperMontage to increase Nasdaq's market share of transactions in Nasdaq-listed securities.

Nasdaq has invested approximately $107 million in the design and implementation of its new trading system, SuperMontage, which was fully implemented on December 2, 2002. SuperMontage is intended to attract more orders and quotes to The Nasdaq Stock Market by providing a more comprehensive system that will increase competition and market transparency. SuperMontage has been launched into a competitive environment. Any decision by market participants to quote through regional exchanges or the ADF, as discussed below, could have a negative impact on Nasdaq's share of quotes and trades in securities listed on The Nasdaq Stock Market and may adversely affect Nasdaq's business, financial condition, and operating results.

Nasdaq is currently facing increased competition from regional exchanges for quoting and trade reporting business, which affects Transaction Services and Market Information Services revenue. Island began reporting its trades to the Cincinnati Stock Exchange in February 2002, while another ECN, Archipelago, began quoting and reporting certain trades to the Archipelago Exchange, the equities arm of the Pacific Stock Exchange, in February 2003. Nasdaq has taken several steps in response, including discussions with UTP Plan exchanges about how they can continue to interact with SuperMontage (as the Chicago Stock Exchange does), adjusting our transactions pricing to be more competitive with ECNs that do not quote or report through Nasdaq, and working to make functionality of SuperMontage reflect the needs of ECNs that choose to remain in Nasdaq. These actions may not be sufficient to regain lost business or prevent other market participants from shifting some of their trade reporting to regional exchanges. Nasdaq may be required to take further action to remain competitive.

As a condition for its approval of SuperMontage, the SEC required the NASD to provide NASD members with the ability to opt-out of SuperMontage by providing the ADF as an alternative quotation and trade reporting facility for NASD members. At least one ECN has been quoting through the ADF rather than through SuperMontage. The NASD recently reduced the fees it charges for the ADF. Nasdaq has requested that the SEC abrogate this new fee schedule as inconsistent with the Exchange Act, however, there can be no assurance that the SEC will respond favorably to Nasdaq's request. If additional market participants quote through the ADF, Nasdaq faces the risk of reduced market share in Transaction Services and Market Information Services revenue, which could adversely affect Nasdaq's business, financial condition and operating results.

Nasdaq's revenue would be adversely affected by ECNs that register as exchanges.

The Pacific Stock Exchange has established the Archipelago Exchange as its equities trading facility. In addition, Island has applied to register as an exchange. Exchanges that are UTP Plan participants are entitled to a share of Tape Fees. A proliferation in the number of exchanges and UTP Plan participants could have an adverse impact on Nasdaq's Transaction Services and Market Information Services revenue if quoting, trading and trade reporting are fragmented across exchanges and marketplaces.

In addition, new exchanges could adversely affect Nasdaq's revenue from listings. ECNs, unlike exchanges, historically have not provided listing venues. The Pacific Stock Exchange has announced that the Archipelago Exchange intends to begin competing for listings. If more ECNs become exchanges and are successful in attracting listings, there can be no assurances that Nasdaq will be able to maintain or increase its listing revenue. The reduction in initial listings or the loss of a top issuer could have an

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adverse effect on Nasdaq's business, financial condition and operating results. See "—Substantial listing competition could reduce Nasdaq's revenue."

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.

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 alter its pricing structure 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.

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. Nasdaq not only must compete with ECNs that are not subject to the SEC approval process, but Nasdaq must also compete with other exchanges that are subject to lower regulation and surveillance costs than Nasdaq. This self-regulation cost that Nasdaq is required to undertake contributes to the high quality regulation of its market that Nasdaq desires. However, with the fragmentation of trading that has occurred through SEC encouragement, fragmentation of regulation has followed, and there is a significant risk that the effectiveness of the regulation services that Nasdaq pays the NASD to provide will diminish due to this fragmentation. Additionally, there is a risk that trading will shift to exchanges that spend significantly less on regulation services. Nasdaq has raised both concerns -regulatory fragmentation and regulatory arbitrage—to the SEC in an attempt to ensure that the SEC does not permit competition to harm regulation. However, there can be no assurance that the SEC will act favorably regarding Nasdaq's arguments.

System limitations or failures or security breaches 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 otherwise fail to perform, Nasdaq 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, litigation

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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 has active and aggressive programs in place to identify and minimize its exposure to these vulnerabilities and works in collaboration with the technology industry to share corrective measures with Nasdaq's business partners. 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 revenue. 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 continuing prior levels of growth.

For several years, Nasdaq experienced significant growth in its business and the number of its employees. This required Nasdaq to increase its investment in technology, management personnel, market regulatory services and facilities. Over the last three years, however, the securities industry and stock markets have faced adverse conditions. As a result, Nasdaq has not been able, and in the future may not be able, to continue prior levels growth. In addition, Nasdaq may have difficulty managing its business as it is forced to reduce its expenses to deal with contraction in its business. 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 these initiatives may not be offset by corresponding increases in its revenue. No assurance can be made that Nasdaq has made adequate allowances for the changes and risks associated with the weakened equities market, 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, particularly if adverse market conditions continue. If Nasdaq is unable to manage its operations 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 market share of SuperMontage, reductions in fee levels caused by increased competition, the cost of service and technology upgrades and regulatory costs, Nasdaq's ability to fund its 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 had total debt outstanding of approximately $441.0 million on December 31, 2002. This debt contains certain covenant provisions that are normally associated with debt financing. Failure to satisfy these covenants could cause the acceleration of principal and interest on all of the outstanding debt. In addition, as of the date of this report, Nasdaq had issued and outstanding 1,338,402 shares of Series A Preferred Stock, as a result of which Nasdaq is required to make regular dividend payments to the NASD. The dividends payable are calculated based on a dividend rate that is currently 7.6% and increases to 10.6% in all years commencing after March 2004.

Nasdaq may not be successful in executing its international strategy.

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 and Nasdaq Japan ceased operations in 2002, resulting in Nasdaq taking an other than temporary impairment of its entire investment in Nasdaq Japan. See "Consolidated Financial Statements, Note 2."

There can be no assurance that Nasdaq will be able to succeed in deploying its market model and brand in other international markets. Nasdaq may experience difficulty in managing its international operations because of, among other things, competitive conditions overseas, difficulties in supervising foreign operations, established domestic markets, language and cultural differences, political and economic instability, sustained weakness in European equities markets, 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—Other Products and Markets—Nasdaq Europe S.A./N.V." and "—Nasdaq Japan."

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

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. The SEC currently is reviewing a report on the issues from its Advisory Committee on Market Information that was issued in September 2001 and comments on the report. Nasdaq has argued that there is significant value in the quality of data it provides to the investing community. Nasdaq also 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 value of the data and/or the market costs of creating and delivering high quality market data could reduce overall data revenue in the future and adversely affect Nasdaq's business, financial condition and operating results.

Congress conducted hearings in 2000 and 2001 and introduced legislation in 2000 pertaining to whether stock exchanges and markets have a property right to quote and trade data. 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 may continue 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.

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 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.

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.

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 self-regulatory organization activities, it could be exposed to 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, or claims 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.

Lack of operating history as for-profit entity and potential conflicts of interest with related parties.

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. Until Exchange Registration, the NASD will retain voting control over Nasdaq. See "Item 1. Business—Nasdaq's History and Structure." In addition, four of the 20 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 the NASD's 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 various agreements involving the provision of services such as market surveillance and other regulatory functions, finance, technology infrastructure, legal and facilities sharing. Nasdaq has negotiated an agreement with the NASDR pursuant to which NASDR will regulate Nasdaq trading activity commencing upon the effectiveness of Exchange Registration. At the time the parties negotiated this agreement, the parties envisioned that the NASDR would continue regulating trading activity on Nasdaq under a 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 agreement, as negotiated, are substantially of the same type and scope as those NASDR performs under the Delegation Plan.

In the future Nasdaq may determine that it is necessary to negotiate new contracts with the NASD or its affiliates, or to renegotiate existing contracts between the parties. 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 revenue and could adversely affect Nasdaq's business, financial condition and operating results. See "Item 13. 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 application for Exchange Registration or may require changes in Nasdaq's corporate governance structure and the way Nasdaq conducts its business before granting this approval. Failure to be so registered could adversely effect 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.

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.

There currently is a limited trading market for the Common Stock.

The Common Stock is traded in the over-the-counter market through the OTC Bulletin Board. The trading volume in the Common Stock has been relatively limited, with average daily trading volume from the start of trading on July 1, 2002 through December 31, 2002 of approximately 14,000 shares. A more active trading market for the Common Stock may not develop and such market as does develop on the OTC Bulletin Board may have limited liquidity and considerable volatility.

Item 2. Properties.

The following is a description of Nasdaq's material properties as of December 31, 2002.

Location	Use	Size (approximate, in square feet)	Type of Possession
New York, New York	Location of MarketSite	26,000	Leased by Nasdaq
New York, New York	Nasdaq headquarters	83,000	Subleased from the NASD
New York, New York	General office space	24,000	Leased by Nasdaq
New York, New York	General office space	53,000	Leased by Nasdaq
Rockville, Maryland	General office space	78,000	Leased by Nasdaq
Trumbull, Connecticut	Location for Nasdaq's technology services, systems engineering and market operations	162,000	Owned by Nasdaq
Trumbull, Connecticut	General office space	169,000 (three locations)	Leased by Nasdaq
Washington, D.C.	General office space	15,000	Occupied pursuant to a shared facilities agreement with the NASD
Rockville, Maryland	Location of Nasdaq data center	99,000	Owned by Nasdaq

In addition to the above, Nasdaq currently leases administrative, sales and disaster preparedness facilities in Chicago, Illinois; Menlo Park, California; Norwalk, Connecticut; Jersey City, New Jersey; London, England; Sao Paulo, Brazil; and Montreal, Canada. Nasdaq Europe leases administrative facilities in Brussels, Belgium and London, England. Nasdaq announced in January 2003 that it intends to maintain its headquarters at One Liberty Plaza, New York, New York and to vacate space that it had leased at 1500 Broadway in midtown Manhattan. Nasdaq is exploring its options for subleasing or disposing of the space at 1500 Broadway.

Item 3. 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 4. Submission of Matters to a Vote of Security Holders.

No matters were submitted to a vote of Nasdaq's stockholders during the fourth quarter of 2002.

Part II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters.

Market Information. Nasdaq's Common Stock began trading on the OTC Bulletin Board on July 1, 2002 under the symbol "NDAQ" upon termination of certain contractual transfer restrictions contained in the private placements of Common Stock. No established public trading market existed for the Common Stock prior to July 2002.

There currently is a limited trading market for the Common Stock. The following chart lists the high and low bid prices for shares of the Common Stock for the third and fourth quarters of 2002. These prices are between dealers and do not include retail markups, markdowns or other fee and commissions and may not represent actual transactions.

Quarter of 2002:	High	Low
Third Quarter	$ 13.75	$ 9.05
Fourth Quarter	$ 11.05	$ 7.00

Holders. As of March 26, 2003, Nasdaq had approximately 2,257 holders of record of its Common Stock.

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

Item 6. Selected Consolidated Financial Data

The following sets forth selected consolidated financial information on a historical basis for Nasdaq. The following information should be read in conjunction with the consolidated financial statements and notes thereto of Nasdaq included elsewhere in this Form 10-K.

Selected Consolidated Financial Data

	Year Ended December 31,				
(in thousands, except share amounts)	2002	2001	2000	1999	1998
Statements of Income Data:(1)					
Total revenue	$ 799,217	$ 857,232	$ 832,711	$ 634,248	$ 450,823
Total expenses	720,081	796,101	636,043	499,736	397,165
Income before cumulative effect of change in accounting principle	43,128	40,463	124,396	86,149	34,955
Cumulative effect of change in accounting principle	—	—	(101,090)	—	—
Net income	43,128	40,463	23,306	86,149	34,955
Net income applicable to common stockholders	33,363	40,463	23,306	86,149	34,955
Weighted average common shares outstanding (2)	83,650,478	116,458,902	112,090,493	100,000,000	100,000,000
Basic and diluted earnings per share:					
Before cumulative effect of change in accounting principle	$ 0.40	$ 0.35	$ 1.11	$ 0.86	$ 0.35
Cumulative effect of change in accounting principle	—	—	(0.90)	—	—

Net income	$ 0.40	$ 0.35	$ 0.21	$ 0.86	$ 0.35

	As of December 31,				
	2002	2001	2000	1999	1998
Balance Sheet Data:(1)(3)					
Cash and cash equivalents	$ 204,271	$ 293,731	$ 262,257	$ 10,598	$ 2,754
Total assets	1,175,914	1,326,251	1,164,399	578,254	403,745
Total long-term liabilities	616,063	507,563	221,464	78,965	41,248
Total stockholders' equity	270,872	518,388	645,159	352,012	266,255

(1) Certain amounts in the prior years have been reclassified to conform with the 2002 presentation.

(2) Gives effect to the June 28, 2000, 49,999-for-one stock dividend of the shares of Common Stock for years ended 1998-2000.

(3) Balance sheet data for 1998-1999 has not been restated for the Change in Accounting Principle, which was adopted as of January 1, 2000.

Item 7. 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 Form 10-K. 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 Form 10-K.

Overview

Nasdaq operates The Nasdaq Stock Market, the world's largest electronic screen-based equity securities market and the world's largest equity securities market based on share volume. Nasdaq operates in one segment as defined in Statement of Financial Accounting Standards ("SFAS") No. 131, "Disclosures About Segments of an Enterprise and Related Information". Nasdaq's principal business products are price discovery and trading services, the sale of related data and information, and listing securities of issuers. The majority of this business is transacted with companies listed on The Nasdaq Stock Market, market data vendors, and firms in the broker-dealer industry within the U.S.

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

- 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 information services provide varying levels of quote and trade information to data vendors, who in turn sell the information to the public; and
- Corporate Client Group provides customer services and information products to Nasdaq-listed companies and is responsible for obtaining new listings on The Nasdaq Stock Market.

On March 8, 2002, Nasdaq completed the Repurchase by purchasing 33,768,895 shares of Nasdaq's Common Stock owned by the NASD, which represented all of the remaining outstanding shares of Common Stock owned by the NASD, except for the 43,225,976 shares of Common Stock underlying the warrants issued by the NASD as part of the Restructuring. Nasdaq purchased the Common Stock for approximately $305.2 million in aggregate cash consideration, 1,338,402 shares of Nasdaq's Series A Cumulative Preferred Stock (face and liquidation value of $100 per share, plus any accumulated unpaid dividends), and one share of Nasdaq's Series B Preferred Stock (face and liquidation value of $1.00 per share). The Repurchase furthered Nasdaq's goal of separating itself from the NASD. As a result of the Repurchase, the NASD owns approximately 55.2% of the outstanding Common Stock on a non-diluted basis and 0.0% of the Common Stock on a diluted basis (assuming the full exercise of all warrants purchased in Phase I and II of the Restructuring). In addition, the NASD owns all of the outstanding shares of Series A Preferred Stock and the one share of Series B Preferred Stock. The Series B Preferred Stock is structured to ensure that the NASD will retain voting control over Nasdaq until Exchange Registration is achieved.

Business Environment

Economic conditions in the U.S. improved only slightly during 2002 as growth remained sluggish in the face of growing unemployment and further eroding consumer confidence. The failure of the economy to fully bounce back from the economic downturn in 2001, as well as a number of high-profile corporate scandals increased investor uncertainty throughout 2002. This uncertainty had a negative effect on the performance of the U.S. equity markets, as evidenced by declines in all the major U.S. stock indices. During 2002, the Nasdaq Composite Index fell approximately 32%, the S&P 500 fell

approximately 23%, the Dow Jones Industrial Average fell approximately 17% and the Wilshire 5000 fell approximately 22%.

Market declines adversely affected both investors and the securities industry, and interest in equities remained much lower than the levels reached in 1999 and 2000. Decreased market activity continued to reduce demand for a variety of Nasdaq market services related to trading, system access and market information. Online trading, which declined significantly in 2001, has yet to rebound in a way that would reverse the contraction and staff reductions widely occurring in the securities industry. Average daily share volume in 2002 was approximately the same as in 2001. Although average daily reported share volume was down almost 8% in 2002 compared to 2001, some of this decline in reported share volume can be accounted for by a technical change in trade reporting by institutional broker-dealers that occurred during 2002. The change involved some market participants charging clients an explicit commission (as opposed to the traditional net price) and this change results in lower reported share volume. However, underlying trading activity is unaffected by this situation; therefore the change to agency trade reporting does not have a correspondingly large impact on Nasdaq's revenue. Average daily dollar volume declined more than 34% during 2002 due to the substantial drop in average stock prices compounded by the smaller reduction in share volume.

Weak economic conditions and lower stock prices also limited the ability of companies to raise money in the equity markets. New issues on all U.S. markets were well off the pace set in previous years, although roughly in line with 2001, which was also a weak year for new listings. Particularly affected were companies in the technology and growth fields, a high percentage of which historically have listed on The Nasdaq Stock Market. In 2002, there were only 51 IPOs on The Nasdaq Stock Market compared to 63 in 2001 and 397 in 2000. This reduction in IPOs limited Nasdaq's opportunities to expand listing revenue and had a spillover effect on transaction and market information services revenue. The market declines also produced a large number of delistings; 571 companies delisted from The Nasdaq Stock Market for a variety of reasons in 2002. This was an improvement from the 770 delistings in 2001. Approximately 82% of the delistings in 2002 were related to the failure to meet The Nasdaq Stock Market's listing standards or merger and acquisition activity, 8% delisted as a result of switches to a competing market and the remaining 10% ceased being listed for other reasons.

Overview of First Half of 2002. Trading activity was generally stable throughout the first six months of 2002, but considerably lower than in the comparable period of 2001. Average daily share volume in the first quarter of 2002 averaged 1.82 billion shares compared to 2.14 billion shares in the first quarter of 2001, a drop of approximately 15%. Average daily share volume in the second quarter of 2002 averaged 1.83 billion shares compared to 1.95 billion in the second quarter of 2001, a loss of roughly 6%. The number of trades also declined by 17% and 5% in the first and second quarters of 2002 as compared to the first and second quarters of 2001. Decreases in share and trade volume led to decreases in transaction services revenue. Market information services revenue was adversely impacted by this drop in daily trading activity and by the overall market decline, as demand for professional and non-professional market information services declined. The slowing economy also led to an increase in delistings and decreases in the number of both IPOs and listed companies issuing additional shares. However, reported revenue associated with Corporate Client Group activities increased during the first half of 2002 mainly due to the introduction in January 2002 of a revised fee structure for annual renewal fees. Total new issues of companies listed on The Nasdaq Stock Market, including IPOs, were 60 in the first half of 2002 compared to 69 during the same period of 2001.

Overview of Third Quarter of 2002. Although average daily share and trading volumes historically have been weakest in the third quarter, in 2002, third quarter volume rose almost 6% to 1.72 billion shares per day in the third quarter of 2002 from 1.63 billion shares per day during the same period in 2001. This increase was driven in part by a dramatic increase in trade volume in one security listed on The Nasdaq National Market that was subsequently delisted in the third quarter of 2002. Revenue from Transaction Services and the Corporate Client Group, as well as total revenue, were up slightly in the

third quarter of 2002 compared to levels in the third quarter of 2001. New listings remained well below historic levels during the third quarter of 2002. There were only 23 new listings of companies on The Nasdaq Stock Market during the quarter, down from 32 in the same period of 2001. This included six IPOs, five less than in the comparable period in 2001.

Overview of Fourth Quarter of 2002. Trading activity was lightest during the fourth quarter of 2002 due to concerns about the economic recovery and the geo-political environment. Average daily share volume in this period fell approximately 12% to 1.64 billion shares compared to 1.86 billion shares in the fourth quarter of 2001, a period that included a substantial increase in trading activity in the wake of September 11, 2001. This impacted most of Nasdaq's major business lines, as total revenues decreased in the fourth quarter of 2002 compared to the same period in 2001. Corporate Client Group did post an increase in revenue in the fourth quarter compared to the same period in 2001 primarily due to the introduction in January 2002 of a revised fee structure for annual renewal fees. There were 38 new listings including 16 new IPOs in the fourth quarter of 2002. While the new listing figures are down slightly compared to the fourth quarter of 2001, the figures reflect a solid increase over new listings in the third quarter of 2002.

2003 Outlook. Nasdaq continues to face economic and competitive challenges. In January and February 2003, trading volume was down slightly from the fourth quarter of 2002. Daily share volume in January and February averaged 1.55 billion and 1.31 billion shares, respectively. Trading activity also has been affected by concern among investors about the markets and the economy as a whole and it is possible that volume will remain flat until traders and the investing public are more certain about the economic condition of the U.S. and the outcome of the war in Iraq. There is also a threat of some competitive attrition of Nasdaq's principal business lines as some ECNs, which have traditionally relied on Nasdaq's execution and reporting systems, have aligned themselves with regional exchanges, or with the ADF, or are seeking to establish themselves as national securities exchanges. All these moves will increase competition with Nasdaq for trade reporting, Tape Fees, and possibly even listings business. Any decision by other market participants to quote through regional exchanges or the ADF could have a negative impact on Nasdaq's share of quotes and trades in securities listed on The Nasdaq Stock Market.

Nasdaq successfully completed the roll out of its new order routing and execution system, SuperMontage, on December 2, 2002. SuperMontage is intended to attract more orders and quotes to The Nasdaq Stock Market by providing a comprehensive display of interest at the inside market and four other price levels away, thus increasing competition and market transparency. While the data on SuperMontage is still preliminary, initial results from January and February 2003 indicate that SuperMontage is helping to stabilize the share of transactions executed over Nasdaq systems which had been declining. Nasdaq is currently reviewing changes to the SuperMontage system to increase usage of the new system by market participants. For example, in early February 2003, Nasdaq began allowing order entry firms to enter certain limit orders into SuperMontage. Nasdaq's goal is to build market share growth in 2003 by encouraging user acceptance of SuperMontage, and Nasdaq will continue to use competitive pricing to bring more order flow to SuperMontage.

Nasdaq is in the process of implementing changes to its listing standards and process for delisting due, in part, to the substantial decline in stock prices of many companies listed on The Nasdaq Stock Market that continue to meet many of Nasdaq's listing standards, but no longer satisfy the minimum bid price requirements. These changes are discussed in "Item 1. Business—Products and Services—Corporate Client Group." Nasdaq anticipates that these new rules will result in more listed companies transferring from one tier of The Nasdaq Stock Market to the other than has occurred in previous years.

It is difficult at this time to determine when the economy and market conditions will begin a sustained improvement. A rise in investor confidence could result in a corresponding increase in

demand for transaction services and data products. Trading activity could see an additional boost as investors returning to the market benefit from SuperMontage, which provides a faster more efficient system offering more liquidity and order protection than ever before on The Nasdaq Stock Market. Any sustained rebound in the equity markets may provide Nasdaq with greater opportunities for new listings and secondary offerings. However, if weak domestic and international economic conditions continue or worsen in the face of global conflicts and instability, Nasdaq's business, financial condition, and results of operations may be materially adversely impacted.

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 revenue (the "Change in Accounting Principle").

In accordance with accounting principles generally accepted in the United States, 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 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 the adoption of SAB 101, 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 for 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:

(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

As a result of the change in accounting principle, for the year ended December 31, 2000, revenue 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 years ended December 31, 2002, 2001 and 2000, Nasdaq recognized $31.6 million, $44.9 million, and $55.7 million in revenue, respectively, that was included in the cumulative effect adjustment as of January 1, 2000. This revenue contributed $19.2 million (after income taxes of $12.4 million), $27.3 million (after income taxes of $17.6 million), and $33.3 million (after income taxes of $22.4 million), to net income for the years ended December 31, 2002, 2001 and 2000, respectively.

Revenue which is deferred in accordance with SAB 101 as of December 31, 2002 and 2001 is discussed further in the "Consolidated Financial Statements, Note 4".

Results of Operations

Financial Overview. Nasdaq's financial position can vary due to a number of factors discussed throughout this "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in "Item 1. Business—Risk Factors." The following table sets forth an overview of Nasdaq's financial results:

	Year Ended December 31,		
(in millions, except per share amounts and percentages)	2002	2001	2000
Total revenue	$ 799.2	$ 857.2	$ 832.7
Total expenses	720.1	796.1	636.0
Net income before taxes	84.2	78.8	214.9
Cumulative effect of change in accounting principle	—	—	(101.1)
Net income	43.1	40.5	23.3
Net income applicable to common stockholders	33.4	40.5	23.3
Basic and diluted earnings per share before cumulative effect of change in accounting principle	0.40	0.35	1.11
Basic and diluted earnings per share	0.40	0.35	0.21
Return on average common equity	10.2%	7.0%	4.7%
EBITDA(1)	177.0	154.5	262.3

(1) EBITDA represents income before cumulative change in accounting principle, net interest, income taxes, minority interest 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.

Revenue

The following table sets forth total revenue:

	Year ended December 31,		
(in millions)	2002	2001	2000
Transaction Services	$ 380.7	$ 412.1	$ 398.5
Market Information Services	202.4	243.9	261.7
Corporate Client Group	176.7	156.1	149.3
Other	39.4	45.1	23.2
Total Revenue	$ 799.2	$ 857.2	$ 832.7

Transaction Services

The following table sets forth the revenue from Transaction Services:

	Year ended December 31,		
(in millions)	2002	2001	2000
Access Services	$ 140.8	$ 165.5	$ 128.2
Execution Services	157.5	154.4	164.4
Trade Reporting	78.6	87.3	100.0

Other Transaction Services Revenue	3.8	4.9	5.9
Total Transaction Services Revenue	$ 380.7	$ 412.1	$ 398.5

For the Years Ended December 31, 2002 and 2001. Transaction Services revenue was $380.7 million in 2002 compared with $412.1 million in 2001, a decrease of $31.4 million or 7.6%.

Access Services revenue was $140.8 million in 2002 compared with $165.5 million in 2001, a decrease of $24.7 million or 14.9%. This decrease was primarily due to cost saving initiatives among Nasdaq's market participants and the consolidation of major trading firms, which resulted in fewer subscriber log-ons to Nasdaq systems. Access Services revenue is derived from Nasdaq Workstation II and Application Programming Interface, CTCI, Nasdaq Tools and the Nasdaq Workstation Weblink system (Weblink).

The Nasdaq Workstation II, along with Application Programming Interface, is the trader's direct connection to Nasdaq's quote and trade execution facilities, providing access to quotation services, automated trade executions, real-time reporting, trade negotiations and clearing. These access devices provided revenue of $118.4 million in 2002 compared with $142.9 million in 2001, a decrease of $24.5 million or 17.1%. This decrease was primarily due to a decrease in the number of trader log-ons, reflecting the downturn in the market environment and market participant's consolidations. Nasdaq Workstation II fees are charged monthly based upon the number of authorized log-on identifications.

Nasdaq provides CTCI for users to report trades, enter orders into SuperMontage and receive execution messages. CTCI links market participants' automated systems to Nasdaq. This interface has recently been upgraded to a new protocol and delivers increased line speeds. CTCI provided revenues of $17.1 million in 2002 compared with $15.5 million in 2001, an increase of $1.6 million or 10.3%. New fees associated with the upgraded interface and an increase in customers were primarily responsible for the increase in revenue. Users are charged a monthly fee based upon the bandwidth of the line.

Also included in Access Services revenue is Nasdaq Tools and Weblink, which totaled $3.8 million and $1.5 million, respectively for 2002 and $6.6 million and $0.5 million, respectively for 2001. Prior to April 1, 2002, Weblink revenue was disclosed as Other Transaction Services revenue and prior to July 31, 2002, revenue from Nasdaq Tools was disclosed as Other revenue. Prior periods amounts have been reclassified to conform to the current period presentation of revenue for Access Services, Other Transaction Services revenue and Other revenue.

Execution Services revenue totaled $157.5 million in 2002 compared with $154.4 million in 2001, an increase of $3.1 million or 2.0% primarily due to revised pricing for SuperSoes, including the introduction of a new, incremental fee associated with quote updates in Nasdaq quotation systems offset by lower overall share volume and market share in 2002 compared to 2001. Execution Services revenue is primarily derived from SuperMontage, SuperSoes, SelectNet, SOES, Quote Update, ACES and CAES.

In the fourth quarter of 2002, Nasdaq fully implemented SuperMontage, a new trading system designed to refine how market participants can access, process, display, and integrate orders and quotes in The Nasdaq Stock Market. SuperMontage is intended to attract more orders to The Nasdaq Stock Market, thereby increasing competition and market transparency. SuperMontage replaced SuperSoes as the transaction system for automatic execution of buy and sell orders as well as SelectNet, which functioned as an automated Nasdaq service to facilitate order executions by linking all market participants that trade Nasdaq-listed securities. (See discussion of SuperSoes and SelectNet below.) SuperMontage revenue was $11.0 million in 2002.

As discussed above, SuperSoes was Nasdaq's primary execution system prior to the implementation of SuperMontage. SuperSoes was fully implemented on July 30, 2001. SuperSoes combined features of the existing SelectNet and SOES execution systems and was only available for securities listed on The Nasdaq National Market tier of The Nasdaq Stock Market. SuperSoes replaced SelectNet mandatory execution requirements and SOES. (See discussion of SelectNet and SOES below.) SuperSoes had

resulted in the migration of significant transaction volume, and its corresponding revenue, from SelectNet and SOES to SuperSoes. On February 1, 2002 Nasdaq introduced a fee charged to market participants for updating quotes on The Nasdaq Stock Market. This quote update fee, which contributed $18.4 million in revenue in 2002, was eliminated on February 1, 2003. SuperSoes revenue and quote update fees were $109.7 million in 2002 compared with $32.3 million in 2001, an increase of $77.4 million mainly due to SuperSoes being utilized as the primary execution system for nine months in 2002 compared with five months in 2001. Nasdaq retired the SuperSoes system in December 2002.

The SelectNet execution system provided revenue of $28.7 million in 2002 compared with $87.1 million in 2001, a decrease of $58.4 million or 67.0%. As discussed above, SelectNet functioned as an automated Nasdaq service to facilitate order execution by linking all market participants that traded Nasdaq-listed securities. Prior to the implementation of SuperSoes on July 30, 2001, SelectNet was the primary system that market makers used to trade with one another. During 2002, SelectNet served primarily as a means for participants to reach ECN quotes on The Nasdaq Stock Market and was also a tool for market participants seeking to negotiate trades with particular counter-parties to broadcast such an order to all market makers. The decrease in revenue for SelectNet was primarily due to a decrease in trade volume related to the introduction of SuperSoes and ECNs increased buildout of direct links to customers. SelectNet fees were charged on a per transaction basis. Nasdaq retired the SelectNet system in December 2002.

During 2001, SOES provided revenue of $26.1 million. Due to the migration to SuperSoes, revenue from SOES decreased and accounted for less than 1% of revenue in 2002. Nasdaq retired the SOES system in December 2002.

Also included in Execution Services revenue is revenue from ACES, CAES and Primex. ACES and CAES revenues totaled $7.7 million in 2002 compared with $8.9 million in 2001, a decrease of $1.2 million or 13.5% primarily due to a price decrease for the ACES product that was in affect for 12 months in 2002 compared with four months in 2001. Primex revenue totaled $0.4 million in 2002. Nasdaq began charging fees for Primex on August 1, 2002. ACES is an order routing tool which routes orders directly between market participants. CAES is an automatic and order delivery execution system for NYSE and Amex-listed securities. Prior to April 1, 2002, ACES and CAES revenue was disclosed as Other Transaction Services revenue. As such, prior period amounts have been reclassified to conform to the current period presentation of ACES and CAES revenues.

Trade Reporting revenue totaled $78.6 million in 2002 compared with $87.3 million in 2001, a decrease of $8.7 million or 10.0%. This decrease was primarily due to a decline in overall share and trade volume and the reporting of trades to regional exchanges and the ADF. Revenue from Trade Reporting which is derived from ACT, an automated service that provides the post-execution steps of price reporting, volume comparison, clearing of pre-negotiated trades, and risk management services. ACT fees are primarily charged on a per transaction basis.

For the Years Ended December 31, 2001 and 2000. Transaction Service revenue was $412.1 million in 2001 compared with $398.5 million in 2000, an increase of $13.6 million or 3.4%.

Access Services revenue was $165.5 million in 2001 compared with $128.2 million in 2000, an increase of $37.3 million or 29.1% primarily due to increased revenue from the Nasdaq Workstation II and CTCI.

The Nasdaq Workstation II, along with Application Programming Interfaces, provided revenue of $142.9 million in 2001 compared with $118.2 million in 2000, an increase of $24.7 million or 20.9% primarily due to higher fees used to expand network capacity.

CTCI provided revenue of $15.5 million in 2001 compared with $3.2 million in 2000, an increase of $12.3 million due to an increase in fees associated with an upgraded interface and the direct billing by

Nasdaq for CTCI services. Prior to December 2000, the majority of fees for CTCI services were charged by WorldCom, the system provider, rather than by Nasdaq.

Also included in Access Services revenue is Nasdaq Tools and Nasdaq Workstation Weblink. Nasdaq Tools revenue totaled $6.6 million in 2001 compared with $6.8 million in 2000, a decrease of $0.2 million or 2.9%. Weblink was introduced in 2001 and provided revenue of $0.5 million in 2001. Prior to April 1, 2002, Weblink revenue was disclosed as Other Transaction Services revenue and prior to July 31, 2002, revenue from Nasdaq Tools was disclosed as Other revenue. Prior periods amounts have been reclassed to conform to the current period presentation of revenue for Access Services, Other Transaction Services revenue and Other revenue.

Execution Services revenue totaled $154.4 million in 2001 compared with $164.4 million in 2000, a decrease of $10.0 million or 6.1%. The decrease was primarily due to a decline in market share for ACES related revenue, a price decrease for the ACES product and a decline in demand for securities listed on The Nasdaq SmallCap Market. In addition, there was a decrease in SelectNet and SOES revenue, however, this decrease was effectively offset by an increase in SuperSoes revenue. SuperSoes which was the primary execution system in 2001 for transactions on The Nasdaq National market was fully implemented on July 30, 2001 and combined features of the SelectNet and SOES execution systems. SuperSoes provided revenue of $32.3 million in 2001.

SelectNet revenue was $87.1 million in 2001 compared with $113.5 million in 2000, a decrease of $26.4 million or 23.3%. This decrease was primarily due to a decrease in trade volume related to the introduction of SuperSoes on July 30, 2001, which reduced the number of trades directed to SelectNet. Revenues from SelectNet also decreased as a result of the introduction of a new fee schedule for SelectNet in the third quarter of 2001. While Nasdaq revised the SelectNet fee schedule on October 1, 2001 to mitigate the negative effect of the prior fee schedule, the migration of trading to SuperSoes caused revenue from SelectNet to continue to decline in the fourth quarter. With the implementation of SuperSoes, SelectNet was primarily a tool used by market makers to negotiate trades.

SOES, a system providing for the automatic execution of small orders, provided revenue of $26.1 million in 2001 compared with $32.2 million in 2000, a decrease of $6.1 million or 18.9% primarily due to the migration of SOES trading activity into the new SuperSoes system for securities listed on The Nasdaq National Market.

Also included in Execution Services revenue is revenue from ACES and CAES, which totaled $8.9 million in 2001 compared with $18.7 million in 2000, a decrease of $9.8 million or 52.4% primarily due to a decline in market share for ACES related revenue, a price decrease for the ACES product and a decline in demand for securities listed on The Nasdaq SmallCap Market.

Trade Reporting revenue totaled $87.3 million in 2001 compared with $100.0 million in 2000, a decrease of $12.7 million or 12.7%. The decrease was primarily due to various fee changes enacted subsequent to March 31, 2000. These changes included a cap in risk management fees, fee reductions on certain existing services, and a rule change that eliminated charges for certain transactions.

Market Information Services

The following table sets forth the revenue from Market Information Services:

	Year Ended December 31,
(in millions)	

	2002	2001	2000
Level 1 Service	$ 142.3	$ 161.8	$ 190.5
Nasdaq Quotation Dissemination Service ("NQDS")	37.5	43.4	47.3
Nasdaq InterMarket Tape, net of revenue sharing	38.6	32.5	21.9
Unlisted Trading Privileges ("UTP")	(18.3)	(4.7)	(4.2)
Nasdaq Data Tape Fee Revenue Sharing	(9.0)	—	—
Other Market Information Services Revenue	11.3	10.9	6.2
Total Market Information Services Revenue	$ 202.4	$ 243.9	$ 261.7

For the Years Ended December 31, 2002 and 2001. Market Information Services revenue was $202.4 million in 2002 compared to $243.9 million in 2001, a decrease of $41.5 million or 17.0%.

Nasdaq's Level 1 service provides last trade and current inside quote information for securities listed on The Nasdaq Stock Market. Level 1 revenue totaled $142.3 million in 2002 compared with $161.8 million in 2001, a decrease of $19.5 million or 12.1%. The decrease was due to cost saving initiatives among Nasdaq's market participants and the consolidation of major trading firms causing a decrease in professional Level 1 subscriptions. Fees for professional users are based on monthly subscriptions to terminals or access lines. Also contributing to the decline was a decrease in non-professional subscriptions. Providers of Level 1 data to non-professional users have the option to offer this information through either a flat monthly rate or a per query charge. Prior to April 1, 2002, certain Level 1 subscriptions that were included in the bundled NQDS data product were disclosed as NQDS revenues. Prior period amounts have been reclassified to conform to the current period presentation of revenue for Level 1 and NQDS.

NQDS provides subscribers with the best quote from each Nasdaq market participant. NQDS revenues totaled $37.5 million in 2002 compared with $43.4 million in 2001, a decrease of $5.9 million or 13.6% primarily due to cost saving initiatives among Nasdaq's market participants and the consolidation of major trading firms causing a decrease in professional NQDS subscriptions, partially offset by growth in non-professional subscriptions in the fourth quarter of 2002. NQDS revenue is derived from monthly subscriptions. Prior to April 1, 2002, certain Level 1 subscriptions that were included in the bundled NQDS data product were disclosed as NQDS revenue. Prior period amounts have been reclassified to conform to the current period presentation of revenue for Level 1 and NQDS.

Nasdaq InterMarket Tape Fee revenues are derived from data revenue generated by the Consolidated Quotation Plan and the Consolidated Tape Association Plan (collectively, "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 tape revenue is directly related to both its percentage of trades in exchange listed securities that are reported through the CQ/CTA Plans and the size of the revenue sharing pool. Part of Nasdaq's CQ/CTA revenue sharing pool is shared with certain market participants that meet minimum revenue threshold requirements. The minimum threshold requirement was eliminated as of July 1, 2002. Nasdaq InterMarket Tape Fee revenues totaled $38.6 million in 2002 compared with $32.5 million in 2001, an increase of $6.1 million or 18.8%. The increase is primarily due to a revision of estimated payouts for revenue sharing. This increase was partially offset by cost saving initiatives among market participants and the consolidation of major trading firms causing a decrease in the size of CQ/CTA Tape Fee sharing pool. Nasdaq InterMarket Tape Fee revenue was also negatively impacted as a result of Island reporting the Nasdaq-100 exchange traded fund (the "QQQ") to the Cincinnati Stock Exchange beginning in the fourth quarter of 2002. However, partially offsetting

this revenue reduction, Nasdaq receives licensing fees that are reported in Other revenue from regional exchanges that report QQQ trades.

Nasdaq shared Tape Fees, i.e., revenue from the sale of tape data, for Nasdaq-listed securities in two manners. First, through the UTP Plan, Nasdaq shares revenue with regional exchanges that are members of the UTP Plan and that trade Nasdaq-listed securities. UTP Plan participants are paid based on the total shares and trades that they execute as a percentage of all shares and trades executed in securities listed on The Nasdaq Stock Market. Nasdaq Tape Fee revenue sharing with UTP Plan participants totaled $18.3 million in 2002 compared with $4.7 million in 2001, an increase of $13.6 million primarily due to the trade reporting activity from the Cincinnati Stock Exchange, which became an active UTP Plan participant at the end of the first quarter of 2002.

Nasdaq also shared Tape Fee revenue with its market participants in a pilot program based on their share of trades and volume reported to Nasdaq. This revenue sharing plan was introduced in the first quarter of 2002. During 2002, Nasdaq shared $9.0 million in Tape Fee revenue with its market participants. The data revenue sharing program was part of a larger strategy to compete with UTP exchanges and provide proper incentive for Nasdaq members to continue to fully utilize Nasdaq's Transaction Services. Effective June 1, 2002, the SEC abrogated certain market participant Tape Fee sharing pilot programs, which resulted in an elimination of the Nasdaq member revenue sharing program for data covered under the UTP Plan. (See "Consolidated Financial Statements, Note 2" for further discussion.)

Other Market Information Services revenue is primarily derived from Mutual Fund Quotation Service (MFQS) revenues. MFQS provides unit investment trusts, mutual funds and money markets funds with listing services and assists in the collection and dissemination of daily price and related data. Other Market Information Services revenue was $11.3 million in 2002 compared to $10.9 million in 2001, an increase of $0.4 million or 3.7%. The increase was primarily due to an increase in mutual fund listings in 2002 as compared to 2001 and the introduction of a revised fee structure in November 2002.

For the Years Ended December 31, 2001 and 2000. Market Information Services revenue was $243.9 million in 2001 compared with $261.7 million in 2000, a decrease of $17.8 million or 6.8%.

Level 1 provided revenue of $161.8 million in 2001 compared with $190.5 million in 2000, a decrease of $28.7 million or 15.1%. The growth in on-line investing through December 31, 2000 increased the usage of these fee structures by on-line brokerage firms and other Internet services. However, the weaker economic and market conditions in 2001 caused a substantial reduction in Level 1 revenue due to a decrease in demand for both professional and non-professional per query service.

NQDS revenues totaled $43.4 million in 2001 compared with $47.3 million in 2000, a decrease of $3.9 million or 8.2% primarily due to the introduction of the new reduced non-professional service fee. Although the number of NQDS subscribers increased in total, revenue decreased due to the number of subscribers eligible for the new reduced non-professional fee.

Nasdaq InterMarket tape revenues totaled $32.5 million in 2001 compared with $21.9 million in 2000, an increase of $10.6 million or 48.4% primarily due to increased trading through Nasdaq in Amex-listed exchange traded funds, specifically the QQQ.

Nasdaq revenue sharing with UTP Plan participants totaled $4.7 million in 2001 compared with $4.2 million in 2000, an increase of $0.5 million or 11.9% primarily due to the expiration of maximum revenue sharing provisions in the fourth quarter of 2001.

Other Market Information Services revenue was $10.9 million in 2001 compared to $6.2 million in 2000, an increase of $4.7 million or 75.8%. The increase was primarily due to the introduction of unit investment trusts services (discussed in more detail above) in February 2001. A unit investment trust is an investment company that buys and holds a fixed portfolio of shares and holds those shares until the trust's termination date.

Corporate Client Group

The following table sets forth the revenue from the Corporate Client Group as reported and on a billed basis:

	Year Ended December 31,					
	2002		2001		2000	
	Revenue		Revenue		Revenue	
(in millions)	As Reported	Billed Basis	As Reported	Billed Basis	As Reported	Billed Basis
Annual Renewal fee	$ 102.8	$ 102.8	$ 83.1	$ 83.1	$ 81.1	$ 81.1
Listing additional shares ("LAS") fee	37.5	27.9	35.9	41.6	33.6	49.7
Initial listing fee	33.6	22.8	35.7	12.6	33.9	53.1
Other Corporate Client Group Revenue	2.8	2.8	1.4	1.5	0.7	0.7
Total Corporate Client Group Revenue	$ 176.7	$ 156.3	$ 156.1	$ 138.8	$ 149.3	$ 184.6

For the Years Ended December 31, 2002 and 2001. Corporate Client Group revenue was $176.7 million in 2002 compared to $156.1 million in 2001, an increase of $20.6 million or 13.2%.

Corporate Client Group revenues are primarily derived from fees for annual renewal, LAS, and initial listings 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 fees and LAS fees are amortized over six and four years, respectively, and annual fees are amortized on a pro-rata basis over the calendar year. The difference between the as reported revenue and the billed basis revenue is due to the amortization of fees in accordance with SAB 101 (See "Consolidated Financial Statements, Note 4" for further discussion).

Annual renewal fee totaled $102.8 million in 2002 compared with $83.1 million in 2001, an increase of $19.7 million or 23.7%. This increase was primarily due to the introduction in January 2002 of a revised fee structure for annual renewal fees. LAS revenue totaled $37.5 million in 2002 compared with $35.9 million in 2001, an increase of $1.6 million or 4.5%. On a billed basis, LAS fees totaled $27.9 million in 2002 compared with $41.6 million in 2001, a decrease of $13.7 million or 32.9%. The decrease was primarily due to the number of secondary offerings decreasing from 168 in 2001 to 139 in 2002. Initial listing revenues totaled $33.6 million in 2002 compared with $35.7 million in 2001, a decrease of $2.1 million or 5.9%. On a billed basis, initial listing fees totaled $22.8 million in 2002 compared with $12.6 million in 2001, an increase of $10.2 million or 81.0%. The increase is primarily due to an increase in initial listing fees implemented in January 2002 which more than offset the decrease in the number of IPOs listing on The Nasdaq Stock Market. There were 121 new listings including 51 new IPOs in 2002 compared to 145 new listings including 63 new IPOs in 2001.

For the Years Ended December 31, 2001 and 2000. Corporate Client Group revenue was $156.1 million in 2001 compared to $149.3 million in 2000, an increase of $6.8 million or 4.6%.

Annual renewal fee totaled $83.1 million in 2001 compared with $81.1 million in 2000, an increase of $2.0 million or 2.5%. LAS revenue totaled $35.9 million in 2001 compared with $33.6 million in 2000, an increase of $2.3 million or 6.8%. On a billed basis, LAS fees totaled $41.6 million in 2001 compared with $49.7 million in 2000, a decrease of $8.1 million or 16.3%. The decrease was primarily due to the number of secondary offerings, decreasing from 306 in 2000 to

168 in 2001. Initial listing revenues totaled $35.7 million in 2001 compared with $33.9 million in 2000, an increase of $1.8 million or 5.3%. On a billed basis, initial listing fees totaled $12.6 million in 2001 compared with $53.1 million in 2000, a decrease of $40.5 million or 76.3% primarily due to significantly reduced IPO activity and

capital raising activity by current issuers in 2001. There were 145 new listings including 63 new IPOs in 2001 compared to 579 new listings including 397 new IPOs in 2000.

Other Revenue

For the Years Ended December 31, 2002 and 2001. Other revenue totaled $39.4 million in 2002 compared with $45.1 million in 2001, a decrease of $5.7 million or 12.6%. Other revenue primarily includes trademark and licensing revenues related to the QQQ and related products. Nasdaq earns revenues based on the licensing of the Nasdaq brand name for a variety of financial products in the U.S. and abroad. Among these products are the QQQ, options, futures, mutual funds and a variety of other products. The QQQ is 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. The decrease in Other revenue is partially attributable to a decrease in trademark license revenue related to the QQQ occurring outside the Nasdaq InterMarket. This decline in trademark revenue is effectively offset by the higher tape revenue received by Nasdaq InterMarket, which is reflected in Market Information Services, as a result of its increased market share. Other revenue was also impacted by a pre-tax charge of $1.0 million in the fourth quarter of 2002 attributable to the impairment of certain publicly-traded equity securities. The impairment charge was related to the decline in the fair value of Nasdaq's publicly-traded equity investments below their cost basis that was judged to be other-than-temporary.

For the Years Ended December 31, 2001 and 2000. Other revenue totaled $45.1 million in 2001 compared with $23.2 million in 2000, an increase of $21.9 million or 94.4% primarily due to increased trademark and licensing revenue related to the QQQ and related products and revenue from the Nasdaq MarketSite.

Direct Expenses

	Year ended December 31,		
(in millions)	**2002**	**2001**	**2000**
Compensation and benefits	$ 192.4	$ 183.4	$ 137.3
Marketing and advertising	27.1	28.0	45.9
Depreciation and amortization	97.9	93.4	65.6
Professional and contract services	71.4	76.0	61.5
Computer operations and data communications	147.3	174.9	138.2
Provision for bad debts	8.4	15.5	5.6
Occupancy	34.4	27.2	14.8
Nasdaq Japan impairment loss	15.2	—	—
Other	51.0	95.9	38.6
Total direct expenses	$ 645.1	$ 694.3	$ 507.5

For the Years Ended December 31, 2002 and 2001. Direct expenses were $645.1 million in 2002 compared to $694.3 million in 2001, a decrease of $49.2 million or 7.1%.

Compensation and benefits expense was $192.4 million in 2002 compared with $183.4 million in 2001, an increase of $9.0 million or 4.9%. The increase was primarily due to increased headcount related to internal functions being handled by Nasdaq as a result of the separation from the NASD as was well as additional benefit obligations, partially offset by staff reductions. Compensation and benefits expense also included charges of $4.5 million in 2002 and $7.4 million in 2001 for severance and outplacement costs associated with staff reduction plans. The 2002 staff reductions eliminated 139 positions and the staff reduction in 2001 eliminated 137 positions. Compensation and benefits

expense in 2002 also includes 12 months of compensation and benefits related to employees of Nasdaq Europe of $9.3 million compared to nine months of compensation and benefits expense of $5.3 million in 2001. Nasdaq Europe was purchased on March 27, 2001.

Marketing and advertising expense was $27.1 million in 2002 compared with $28.0 million for 2001 a decrease of $0.9 million or 3.2%. The decrease reflects the carryover into the first quarter of 2001 of Nasdaq's fourth quarter 2000 advertising campaign, which included sponsorship of NFL-based programming shows on CBS television partially offset by higher marketing and advertising expenses related to Nasdaq's planned "Listed On Nasdaq" marketing campaign in 2002.

Depreciation and amortization expense was $97.9 million in 2002 compared with $93.4 million in 2001, an increase of $4.5 million or 4.8% primarily due to capacity and technology infrastructure improvements required to support market activity and new initiatives. In addition, $2.8 million of additional depreciation and amortization expense was recognized in 2002 as compared to 2001 related to Nasdaq Europe, which was not consolidated until March 27, 2001.

Professional and contract services expense was $71.4 million in 2002 compared to $76.0 million in 2001, a decrease of $4.6 million or 6.1% primarily due to less reliance on outside contractors, a decrease in development costs associated with SuperMontage, partially offset by increase in costs associated with Nasdaq's global expansion strategy.

Computer operations and data communications expense was $147.3 million in 2002 compared with $174.9 million in 2001, a decrease of $27.6 million or 15.8%. This decrease was primarily due to a renegotiation of Nasdaq's contract with WorldCom that occurred during 2002. Also contributing to the decrease was lower costs associated with providing computer links to customers due to lower demand for such services as noted in the discussion of "Transaction Services—Access Service Revenue".

The provision for bad debts was $8.4 million in 2002 compared with $15.5 million in 2001, a decrease of $7.1 million or 45.8% primarily due to the provision for a bankruptcy filing by a market data vendor recorded in the first quarter results of 2001. This is partially offset by an increase in inactive issuers with outstanding account balances resulting from the temporary suspension of certain listing requirements due to the events of September 11, 2001, the continuing erosion of market conditions and increased payment defaults.

Occupancy expense was $34.4 million in 2002 compared with $27.2 million in 2001, an increase of $7.2 million or 26.5% primarily due to the direct payment of occupancy expenses to third party vendors previously recorded in support costs from related parties in 2001 as a result of the separation from the NASD.

During the second quarter of 2002, Nasdaq has recognized an other-than-temporary impairment on its equity investment in Nasdaq Japan of $15.2 million. (See "Consolidated Financial Statements, Note 2" for further discussion.)

The remaining direct expenses were $51.0 million in 2002 compared with $95.9 million in 2001, a decrease of $44.9 million or 46.8%. The decrease is due to a non-recurring real estate related costs of $21.5 million recorded during 2001 (See "Consolidated Financial Statements, Note 5" for further discussion). Also contributing to the decline were lower Nasdaq Japan losses recorded in Other direct expenses in 2002 compared with 2001 due to the other-than-temporary impairment charge on Nasdaq's equity investment in Nasdaq Japan of $15.2 million which was recorded in the "Nasdaq Japan impairment loss" line item on the Consolidated Statements of Income. Further contributing to the decline was a reduction in technology transition costs to $5.3 million in 2002 from $9.2 million in 2001. In conjunction with the separation from the NASD, Nasdaq had committed to fund $14.5 million of transitional support costs to Amex. In 2001, Nasdaq accrued $9.2 million for such costs. The remaining $5.3 million was recorded in the fourth quarter of 2002 fulfilling Nasdaq's commitment. Partially

offsetting the decrease were higher NQLX losses of $9.0 million in 2002 as compared to $6.0 million in 2001.

For the Years Ended December 31, 2001 and 2000. Direct expenses were $694.3 million in 2001 compared with $507.5 million in 2000, an increase of $186.8 million or 36.8%.

Compensation and benefits expense was $183.4 million in 2001 compared with $137.3 million in 2000, an increase of $46.1 million or 33.6%. The increase is due to a number of factors, including an increase of approximately $23.2 million in 2001 due to the transfer of positions from the NASD to Nasdaq associated with Nasdaq's restructuring towards an independent company. In addition to the above, Nasdaq recorded a $7.4 million charge associated with severance and outplacement costs in 2001. This was the result of the departure of certain senior managers and softening market conditions, which led Nasdaq to implement a staff reduction plan in June 2001 that eliminated 137 positions, or approximately 10% of the workforce at that time. In addition, direct expenses include $4.0 million of compensation and benefits related to employees of Nasdaq Europe from the date of acquisition by Nasdaq.

Marketing and advertising expense was $28.0 million in 2001 compared with $45.9 million for 2000, a decrease of $17.9 million or 39.0% due to reduced spring and fall advertising campaigns.

Depreciation and amortization expense was $93.4 million in 2001 compared with $65.6 million for 2000, an increase of $27.8 million or 42.4% primarily due to a higher overall asset base to support current initiatives, such as SuperMontage and Primex, and the implementation of decimal quoting and trading. Also contributing to the increase was $9.2 million in depreciation and amortization expense of Nasdaq Europe from the date of acquisition by Nasdaq.

Professional and contract services expense was $76.0 million in 2001 compared with $61.5 million for 2000, an increase of $14.5 million or 23.6% primarily due to increased support for SuperMontage and Primex development, and future technology design planning, and costs associated with the Restructuring.

Computer operations and data communications expense was $174.9 million in 2001 compared with $138.2 million for 2000, an increase of $36.7 million or 26.6%. Costs related to computer operations increased $4.5 million from the year ended December 31, 2000 to the year ended December 31, 2001 due to increases in maintenance and software licenses to support a higher asset base. Data communications costs increased $32.2 million due to increased charges for the upgraded bandwidth and processing speed and additional users that are proportional to the increase in Nasdaq Workstation II revenue as discussed above. Also contributing to the increase is $8.1 million of system operating costs of Nasdaq Europe from the date of acquisition by Nasdaq.

Provision for bad debts was $15.5 million in 2001 compared with $5.6 million in 2000, an increase of $9.9 million. The increase is primarily due to an $8.4 million receivable write-off relating to the bankruptcy filing of a market data vendor in the first quarter of 2001. The remaining increase in provision for bad debts was proportional to the growth in Nasdaq's accounts receivable.

Occupancy expense was $27.2 million in 2001 compared with $14.8 million in 2000, an increase of $12.4 million or 83.8% 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 a rent abatement granted to Nasdaq due to the closure of One Liberty Plaza following the events of September 11, 2001.

The remaining direct expenses were $95.9 million in 2001 compared with $38.6 million in 2000, an increase of $57.3 million primarily due to a non-recurring real estate related costs of $21.5 million recorded during 2001 (See "Consolidated Financial Statements, Note 5", for further discussion), higher

losses in 2001 from Nasdaq's equity investment in Nasdaq Japan and increased telephone, training and travel expenses. Also contributing to the increase were technology transition costs of $9.2 million that were accrued for under a commitment by Nasdaq to Amex to fund technology development costs associated with the separation of Amex from Nasdaq. See "Consolidated Financial Statements, Note 17" for a further explanation of Nasdaq's commitment under the agreement.

Support Costs

Due to its historical relationship with the NASD, Nasdaq currently receives services from the NASD and NASDR, and provides services to the NASD and Amex. As such, these services are considered related party transactions. Specifically, for the years ended December 31, 2002, 2001 and 2000, the NASD has provided certain administrative, corporate and infrastructure services, including certain financial services, real estate, legal and human resource services. NASDR provides surveillance and other regulatory services for Nasdaq. These charges are composed primarily of the costs relating to technological investments for market surveillance as well as direct costs for enforcement and other regulation services. 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. Nasdaq also provides security services to the NASD. During 2002, Nasdaq continued moving towards self-sufficiency and, with the exception of surveillance and regulatory services, it is anticipated that these related party transactions will continue to diminish. Support costs with related parties have been transacted at the cost of providing the service. See "Item 1. Business—Service, Regulatory, and Technology Contractual Relationship with the NASD, NASDR and Amex."

For the Years Ended December 31, 2002 and 2001. Support costs from related parties were $75.0 million in 2002 compared with $101.8 million in 2001, a decrease of $26.8 million or 26.3%. The decrease reflects Nasdaq's continued move towards less reliance upon support from the NASD and its affiliates. Surveillance and other regulatory charges from NASDR were $76.7 million in 2002 compared with $83.8 million in 2001, a decrease of $7.1 million or 8.5%. Support costs from the NASD were $5.1 million in 2002 compared with $32.1 million in 2001, a decrease of $27.0 million or 84.1%. In addition, the amount of Nasdaq costs charged to the Amex were $6.8 million in 2002 compared with $14.1 million in 2001, a decrease of $7.3 million or 51.8%. Amounts charged to related parties are netted against charges from related parties in the "Support costs from related parties, net" line item on the Consolidated Statements of Income.

For the Years Ended December 31, 2001 and 2000. Support costs from related parties were $101.8 million in 2001 compared with $128.5 million in 2000, a decrease of $26.7 million or 20.8%. Surveillance and other regulatory charges from NASDR were $83.8 million in 2001 compared with $79.8 million in 2000, an increase of $4.0 million or 5.0%. Support costs from the NASD were $32.1 million in 2001 compared with $53.6 million in 2000, a decrease of $21.5 million or 40.1%. In addition, contributing to the decrease was an increase in the amount of Nasdaq costs charged to the Amex which totaled $14.1 million in 2001 compared with $4.9 million in 2000, an increase of $9.2 million.

Income Taxes

For the Years Ended December 31, 2002 and 2001. Nasdaq's income tax provision was $41.0 million in 2002 compared with $38.3 million in 2001, an increase of $2.7 million or 7.0%. The effective tax rate was 48.8% for 2002 compared to 48.6% for 2001. The increase in the effective tax rate was primarily due to a reduction in the tax benefits related to tax preferred investments such as tax exempt interest and dividend received deductions offset by a reduction in foreign losses for which no tax benefit is taken.

For the Years Ended December 31, 2001 and 2000. Nasdaq's income tax provision was $38.3 million for the year ended December 31, 2001 compared with $90.5 million for the year ended December 31, 2000, a decrease of $52.2 million or 57.7%. The effective tax rate was 48.6% for the year ended December 31, 2001 compared to 42.1% for the year ended December 31, 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 preferred investments such as tax-exempt interest and dividends received deductions.

Liquidity and Capital Resources

Cash Flows

For the Years Ended December 31, 2002 and 2001. Cash and cash equivalents and available-for-sale securities totaled $426.4 million as of December 31, 2002 compared with $521.8 million at December 31, 2001, a decrease of $95.4 million or 18.3%. Working capital (calculated as current assets, reduced for held-to-maturity investments classified as current assets, less current liabilities) was $382.9 million at December 31, 2002 compared with $520.2 million at December 31, 2001, a decrease of $137.3 million or 26.4%.

Cash and cash equivalents were $204.3 million at December 31, 2002 compared with $293.7 million at December 31, 2001, a decrease of $89.4 million or 30.4% primarily due to cash used in investing activities of $102.5 million and cash used in financing activities of $144.1 million offset by cash provided by operating of $157.2 million.

Operating activities provided net cash inflows of $157.2 million for the year ended December 31, 2002, primarily due to cash received from customers and related parties less cash paid to suppliers, employees and related parties.

Net cash used in investing activities was $102.5 million for the year ended December 31, 2002, primarily due to purchase of $212.6 million of available-for-sale investments and capital expenditures of $85.4 million related to SuperMontage, investment in global initiatives of $21.8 million and general capacity increases offset by proceeds of $209.2 million from the redemption of available-for-sale investments.

Cash used in financing activities was $144.1 million for the year ended December 31, 2002, primarily due to the payment of approximately $305.2 million to fund the repurchase of all remaining shares of Common Stock owned by the NASD, except for shares underlying warrants to purchase outstanding shares of Common Stock previously issued by the NASD, as discussed in the "Consolidated Financial Statements, Note 2", offset by an increase in debt of $152.4 million primarily due to a $150.0 million private debt offering in May 2002. These senior notes are due in 2007.

Nasdaq believes that the liquidity provided by existing cash and cash equivalents, investments, and cash generated from operations will provide sufficient capital to meet current and future operating requirements. Nasdaq is exploring alternative sources of financing that may increase liquidity in the future. 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.

For the Years Ended December 31, 2001 and 2000. Cash and cash equivalents and available-for-sale securities totaled $521.8 million at December 31, 2001 compared with $494.3 million at December 31, 2000, an increase of $27.5 million or 5.6%. Working capital was $520.2 million at December 31, 2001 compared with $440.3 million at December 31, 2000 an increase of $79.9 million or 18.1%.

Cash and cash equivalents totaled $293.7 million at December 31, 2001 compared with $262.3 million at December 31, 2000 an increase of $31.4 million or 12.0% primarily due to cash

provided by operating activities of $62.6 million and cash provided by financing activities of $78.0 million, partially offset by cash used in investing activities of $109.2 million.

Operating activities provided net cash inflows of $62.6 million for the year ended December 31, 2001, primarily due to cash received from customers less cash paid to suppliers, employees and related parties and income taxes paid.

Net cash used in investing activities was $109.2 million for the year ended December 31, 2001, primarily due 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 from the sale of Common Stock in Phase II of the Restructuring that closed in January 2001 and receipts from the sales and maturities of investments.

Cash provided by financing activities was approximately $78.0 million for the year ended December 31, 2001. On May 3, 2001, Nasdaq sold Subordinated Notes 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 of the Restructuring that equaled approximately $63.7 million and repaid approximately $28.6 million to the venture partners who participated in Nasdaq Europe Planning Company Limited. Nasdaq used a portion of the proceeds to repurchase additional shares from the NASD in 2002 and used 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.

Liquidity and Capital Adequacy

Nasdaq's Treasury Department manages Nasdaq's capital structure, funding, liquidity, collateral, and relationships with bankers, investment advisors and creditors on a global basis. The Treasury Department works jointly with subsidiaries to manage internal and external borrowings.

The Nasdaq Board has approved an investment policy for Nasdaq and its subsidiaries for internally and externally managed portfolios. The goal of the policy is to maintain adequate liquidity at all times and to fund current budgeted operating and capital requirements and to maximize return. All securities must meet credit ratings as established by the policy, and must be denominated in subsidiary specific currencies, with maturities up to 24 months, and an average life of not greater than 12 months. The policy prohibits debt interest in any contractor company where Nasdaq has a material contribution to the business of such company and debt interest in an entity that derives more that 25% of its gross revenue from the combined broker-dealer and/or investment advisory businesses of all of its subsidiaries and affiliates. This policy is reviewed annually, and regular reviews of investments and investment managers are also made.

On August 29, 2002, Nasdaq entered into a $150.0 million unsecured revolving credit facility as amended, (the "Facility"). The Facility, which is syndicated to five banks, makes $150.0 million available to Nasdaq for a 364-day term. Nasdaq intends to use the Facility for general corporate purposes. At December 31, 2002, Nasdaq had not utilized the Facility, and the entire $150.0 million of the Facility was available. (See "Consolidated Financial Statements, Note 10" for further information.)

During the first quarter of 2002, Nasdaq repurchased 33.8 million shares of Common Stock from the NASD. This reduction in outstanding shares has a direct impact on the earnings per share for 2002.

Nasdaq has pledged certain investments as collateral for a $25.0 million loan to a financial institution. Collateral is limited to U.S. Government and Agency securities with a margined value of approximately $28.4 million, and is invested in accordance with the note agreement.

The majority of liquidity for Nasdaq and its subsidiaries is raised by Nasdaq. Nasdaq lends necessary funds from time to time to its equity and consolidated subsidiaries to meet their working capital requirements.

Contractual Obligations and Contingent Commitments

Nasdaq has contractual obligations to make future payments under long-term debt and long-term non-cancelable lease agreements and has contingent commitments under a variety of arrangements as discussed in the Notes to the Consolidated Financial Statements. The following table sets forth these contractual obligations as of December 31, 2002:

(in thousands)	2003	2004-2005	2006-2007	2008 and thereafter	Total
Long-term borrowings by contract maturity	$ 11,329	$ 14,689	$ 390,000	$ 25,000	$ 441,018
Minimum rental commitments under non-cancelable operating leases	17,742	40,264	39,752	193,189	290,947
Minimum rental commitments under capitalized leases	5,222	8,270	—	—	13,492

In May 1997, Nasdaq entered into a $25.0 million note payable with a financial institution. Principal payments are scheduled to begin in 2007 and continue in equal monthly installments until maturity in 2012.

On March 27, 2001, Nasdaq acquired 68.2% of Nasdaq Europe and accounted for this acquisition under the purchase method of accounting. As of December 31, 2002, Nasdaq owned approximately a 59.4% interest in Nasdaq Europe. Nasdaq Europe has $26.0 million of notes payable outstanding with third parties as of December 31, 2002. Principal payments are scheduled in 2003 and 2004. Nasdaq Europe also has $21.7 million of intercompany loans with Nasdaq outstanding as of December 31, 2002. Nasdaq funded these loans to finance the operations of Nasdaq Europe for 2002 and to enable Nasdaq Europe to invest in Nasdaq Deutschland AG, a venture among Nasdaq Europe, several German banks and two regional German exchanges (See "Consolidated Financial Statements, Note 17" for further discussion). Nasdaq has agreed to convert the intercompany loans from debt to equity if the majority of the European strategic partners also convert their debt to equity. In October 2002, Nasdaq Europe's strategic investors committed to convert approximately $18.6 million or 73.8% of Nasdaq Europe's external debt to equity ($44.5 million or 87.1% including intercompany debt with Nasdaq). The conversion was formally approved by Nasdaq Europe's Board in March 2003 and is expected to close in May 2003.

On May 3, 2001, Nasdaq issued and sold $240 million in aggregate principal amount of 4.0% convertible Subordinated Notes due 2006 to Hellman & Friedman. See "Consolidated Financial Statements, Note 11" for further information on the Subordinated Notes.

On May 9, 2002, Nasdaq issued and sold $150.0 million in aggregate principal amount of its 5.83% senior notes due 2007 (the "Senior Notes") in a private placement. The Senior Notes are unsecured, pay interest quarterly, and may be redeemed by Nasdaq at any time, subject to a make-whole amount. The proceeds from the Senior Notes, approximately $149.0 million after payment of placement agent commissions and expenses of this offering, were used to fund a portion of the cash consideration paid to the NASD in the Repurchase and for general corporate purposes.

On August 29, 2002, Nasdaq entered into the Facility, a $150.0 million unsecured revolving credit facility. The Facility, which is syndicated to five banks, makes $150.0 million available to Nasdaq for a 364-day term. Nasdaq intends to use the Facility for general corporate purposes. At December 31, 2002, Nasdaq had not utilized the Facility, and the entire $150.0 million of the Facility was available. (See "Consolidated Financial Statements, Note 10" for further information).

Nasdaq has agreed to guarantee the provision of certain support and maintenance services for the trading platform to be operated by Nasdaq Deutschland AG in the event Nasdaq Europe no longer provides such services due to circumstances including its liquidation or winding down. Nasdaq's obligation to provide services would continue for a period of 18 months from the date the guarantee is triggered, but in no event longer than three years from the date trading begins on the Nasdaq Deutschland exchange. Nasdaq will be obligated to perform under the guarantee only if Nasdaq Deutschland satisfies certain conditions, including minimum quarterly order flow requirements for periods starting in the fourth quarter of 2003. Nasdaq estimates the maximum cost of providing the services at €14.7 million ($15.4 million) over the term of the guarantee.

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. Minimum lease payments at December 31, 2002 were $290.9 million.

As of December 31, 2002, Nasdaq had future minimum lease payments under non-cancelable capital leases of $13.5 million.

The Nasdaq Board has approved a capital contribution of up to $25.0 million to the NQLX joint venture. Nasdaq made a $2.0 million capital contribution in 2001. During 2002, Nasdaq made additional contributions to NQLX of $16.0 million. An additional $7.0 million is expected to be contributed in 2003, which will fulfill Nasdaq Board's initial approval of $25.0 million.

In December 2002, Nasdaq purchased the NASD's 50.0% interest in the NASD Insurance Agency (subsequently renamed the Nasdaq Insurance Agency, LLC ("NIA")). Nasdaq's consideration for the NASD's 50.0% interest consisted of an upfront payment of $0.5 million and up to $5.1 million based on NIA's stream of contingent cash flow through 2011. Nasdaq will pay (a) 20% of NIA's cash flows until Nasdaq has paid the NASD $2.3 million from cash flows; (b) 10% of NIA's cash flows until Nasdaq has paid the NASD a cumulative amount of $3.0 million from cash flows; (c) 5% of NIA's cash flows until Nasdaq has paid the NASD the full cumulative amount of $5.1 million from cash flows.

During 2001, Nasdaq agreed to fund a portion of the necessary expenses related to the separation of software, hardware and data under a plan to transition technology applications and support from Nasdaq to Amex. The NASD originally integrated certain Nasdaq and Amex technology subsequent to the 1998 acquisition of Amex by the NASD. The total estimated cost of the separation had been established at a maximum of $29.0 million, and was to be shared evenly between Nasdaq and the NASD. In 2002 and 2001, Nasdaq accrued $5.3 million and $9.2 million, respectively under this commitment fulfilling its commitment. As of December 31, 2002, $3.7 million has been paid to Amex.

Nasdaq entered into a six-year $600.0 million contract with WorldCom in 1997 to replace the data network that connected the Nasdaq market facilities to market participants. As part of that contract, Nasdaq provided a guaranteed revenue commitment to WorldCom of $300.0 million. Nasdaq was permitted to renegotiate the contract once the minimum guarantee was satisfied. In June 2002, an amendment to the original contract was negotiated with WorldCom once the minimum usage level of $300.0 million was achieved from the original contract. The amended contract supersedes the terms of the existing contract and is for $182.0 million over three years commencing June 2002. The three-year contract includes fixed and variable cost components for two years. Pursuant to the agreement, however, Nasdaq has the right to terminate the contract in certain circumstances after the second year.

Although WorldCom declared bankruptcy in July 2002, Nasdaq does not foresee any interruption in service under the contract.

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.

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, 2002, 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 1.21 years as of December 31, 2002. Nasdaq's outstanding debt obligations generally specify fixed interest rates 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 to five years. 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 on Nasdaq earnings or cash flows. Nasdaq's exposure to these risks has not materially changed since December 31, 2002.

Nasdaq also has exposure to foreign currency translation gains and losses, primarily Euro to U.S. Dollar, due to its subsidiaries and equity method investments. During the year 2002, Nasdaq had hedged certain foreign currency exposures although no hedges currently existed at December 31, 2002. Nasdaq expects to periodically re-evaluate its foreign currency hedging policies and may choose in the future to enter into additional transactions.

Critical Accounting Policies

Nasdaq's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States, which requires the use of estimates and assumptions (See "Consolidated Financial Statements, Note 3"). Nasdaq believes the following critical accounting policies, among others, affect the more significant judgments and estimates used in the preparation of the statements:

Revenue Recognition. Market Information Services revenues (25.3% of total revenues in 2002) 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 (47.6% of total revenues in 2002) are variable based on service volumes and are recognized as transactions occur. Corporate Client Group revenues (22.1% of total revenues in 2002) are recognized over each respective estimated services periods. Annual fee revenue are recognized ratably over the following 12-month period. Effective January 1, 2000, initial listing and LAS fees are recognized in accordance with SAB 101 on a straight-line basis over estimated service periods, which are six and four years, respectively. These estimated service periods are based on historical average listing lives of issuers. Prior to 2000, initial listing fees were recognized in the month listing occurred and LAS fees were recognized in the period the incremental shares were issued. The

change in accounting for these fees is more fully described in the "Consolidated Financial Statements, Note 4". Nasdaq continues to periodically re-evaluate its estimated service periods.

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 seven years. All other purchased software is charged to expense as incurred.

Nasdaq uses Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" ("SOP 98-1"), for accounting for internally developed software. SOP 98-1 requires that certain costs incurred in connection with developing or obtaining internal use software be capitalized. Under the provisions of this SOP, Nasdaq capitalizes internal and third party costs incurred in connection with the development of internal use software.

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. All related party transactions are currently charged at cost.

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.

Until Exchange Registration, the NASD will retain voting control over Nasdaq. See "Item 1. Business—Nasdaq's History and Structure". In addition, four of the 19 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.

Nasdaq has agreed to fund a portion of the necessary expenses related to the separation of software, hardware, and data under a plan to transition technology applications and support from Nasdaq to Amex. The NASD originally integrated Nasdaq and Amex technology subsequent to the 1998 acquisition of Amex by the NASD. The total estimated cost of the separation has been established at a maximum of $29.0 million, and is to be shared evenly between Nasdaq and the NASD. Nasdaq accrued $9.2 million of its $14.5 million commitment as of December 31, 2001. The remaining $5.3 million was accrued for during 2002 fulfilling Nasdaq's commitment.

Provision for Bad Debts. Nasdaq evaluates the collectibility of accounts receivable based on a combination of factors. In circumstances where a specific customer's inability to meet its financial obligations is known (bankruptcy filings, substantial downgrading of credit scores), Nasdaq records a specific provision for bad debts against amounts due to reduce the receivable to the amount it

reasonably believes will be collected. For all other customers, provisions for bad debts are made based on the length of time the receivable is past due and historical experience. For receivables past due over 60, 90, and 120 days, the outstanding account balances are reserved for at 10%, 50%, and 100% of the outstanding account balances, respectively. If circumstances change (i.e., higher than expected defaults or an unexpected material adverse change in a major customer's ability to pay), our estimates of recoverability could be reduced by a material amount.

Recent Accounting Pronouncements

In July 2002, the Financial Accounting Standards Board ("FASB") issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS 146"). SFAS 146 requires that a liability for costs associated with an exit or disposal activity be recognized and measured initially at fair value only when the liability is incurred. SFAS 146 is effective for exit or disposal activities that are initiated after December 31, 2002. Nasdaq does not expect the adoption of SFAS 146 to have a material impact on its earnings and financial position.

In November 2002, the FASB issued Interpretation No. 45 "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"). FIN 45 provides accounting and disclosure requirements for certain guarantees. The interpretation requires certain guarantees to be recorded at fair value versus the current practice of recording a liability only when a loss is probable and reasonably estimable. The accounting provisions of FIN 45 are effective for certain guarantees issued or modified beginning January 1, 2003. Nasdaq does not expect the interpretation to have a material impact on its earnings and financial position.

In January 2003, the FASB issued Interpretation No. 46 "Consolidation of Variable Interest Entities" ("FIN 46"). FIN 46 addresses consolidation by business enterprises of variable interest entities ("VIE"s). The accounting provisions and disclosure requirements of FIN 46 are effective immediately for VIEs created after January 31, 2003 and are effective for reporting periods beginning after June 15, 2003 for VIEs created prior to February 1, 2003. Nasdaq does not expect the interpretation to have a material impact on its earnings and financial position.

Quarterly Results from Operations (1)(2)

(Unaudited, in thousands, except share amounts)	1st Qtr 2002	2nd Qtr 2002	3rd Qtr 2002	4th Qtr 2002	Total 2002
Total revenue	$ 211,293	$ 205,262	$ 199,088	$ 183,574	$ 799,217
Total expenses	172,343	190,059	173,398	184,281	720,081
Net operating income (loss)	38,950	15,203	25,690	(707)	79,136
Interest income	3,183	3,289	2,829	2,850	12,151
Interest expense	(3,541)	(4,070)	(6,535)	(5,444)	(19,590)
Minority interests	2,942	2,656	2,953	3,929	12,480
(Provision) for income taxes	(20,207)	(8,308)	(12,226)	(308)	(41,049)
Net income	$ 21,327	$ 8,770	$ 12,711	$ 320	$ 43,128
Net income (loss) applicable to common stockholders	$ 18,886	$ 6,329	$ 10,270	$ (2,121)	$ 33,363
Earnings (loss) per common share:					
Basic	$ 0.19	$ 0.08	$ 0.13	$ (0.03)	$ 0.40
Diluted	$ 0.18	$ 0.08	$ 0.13	$ (0.03)	$ 0.40

(Unaudited, in thousands, except share amounts)	1st Qtr 2001	2nd Qtr 2001	3rd Qtr 2001	4th Qtr 2001	Total 2001
Total revenue	$ 222,767	$ 221,306	$ 197,708	$ 215,451	$ 857,232
Total expenses	180,395	188,486	190,675	236,545	796,101
Net operating income (loss)	42,372	32,820	7,033	(21,094)	61,131
Interest income	6,170	3,807	6,672	5,954	22,603
Interest expense	(758)	(2,057)	(3,276)	(4,552)	(10,643)
Minority interests	217	1,765	3,252	470	5,704
(Provision) benefit for income taxes	(21,808)	(16,753)	(5,736)	5,965	(38,332)
Net income (loss)	$ 26,193	$ 19,582	$ 7,945	$ (13,257)	$ 40,463
Earnings (loss) per common share:					
Basic	$ 0.21	$ 0.17	$ 0.07	$ (0.12)	$ 0.35
Diluted	$ 0.21	$ 0.16	$ 0.07	$ (0.12)	$ 0.35

(1) Certain reclassifications have been made to previously recorded quarters and prior year balances in order to conform to the current year presentation.

(2) Each quarter is calculated as a discrete period and the sum of the four quarters may not equal the full year amount.

Item 7A. Quantitative and Qualitative Disclosure About Market Risk.

Information about quantitative and qualitative disclosures about market risk is incorporated herein by reference from "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Quantitative and Qualitative Disclosure About Market Risk."

Item 8. Financial Statements and Supplementary Data.

Nasdaq's consolidated financial statements, including consolidated balance sheets as of December 31, 2002 and 2001, consolidated statements of income for the years ended December 31, 2002, 2001 and 2000, consolidated statements of changes in stockholders' equity for the years ended December 31, 2002, 2001 and 2000, consolidated statements cash flows for the years ended December 31, 2002, 2001 and 2000, and notes to our consolidated financial statements, together with a report thereon of Ernst & Young LLP, dated March 10, 2003, are attached hereto as pages F-1 through F-35.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

Not applicable.

Part III

Item 10. Directors and Executive Officers of the Registrant.

Information about Nasdaq's directors is incorporated by reference from the discussion under Proposal 1 in Nasdaq's Proxy Statement for the 2003 Annual Meeting of Stockholders. The balance of the response to this item is contained in the discussion entitled "Executive Officers" under Item 1 of Part I of this report.

Item 11. Executive Compensation.

Information about executive compensation is incorporated by reference from the discussion under the heading "Executive Compensation" in Nasdaq's Proxy Statement for the 2003 Annual Meeting of Stockholders.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Information about security ownership of certain beneficial owners and management is incorporated by reference from the discussion under the heading "Security Ownership of Certain Beneficial Owners and Management" and "Equity Compensation Plan Information" in Nasdaq's Proxy Statement for the 2003 Annual Meeting of Stockholders.

Item 13. Certain Relationships and Related Transactions.

Information about certain relationships and transactions with related parties is incorporated herein by reference from the discussion under the heading "Certain Relationships and Related Transactions" in Nasdaq's Proxy Statement for the 2003 Annual Meeting of Stockholders.

Item 14. Controls and Procedures.

(a) . Evaluation of disclosure controls and procedures. Nasdaq's Chairman and Chief Executive Officer and Executive Vice President and Chief Financial Officer have evaluated the effectiveness of Nasdaq's disclosure controls and procedures (as defined in Exchange Act Rule 13a-14(c) and Rule 15d-14(c)) as of a date within 90 days prior to the filing date of this report (the "Evaluation Date"). Based upon that evaluation, Nasdaq's Chairman and Chief Executive Officer and Executive Vice President and Chief Financial Officer concluded that, as of the Evaluation Date, Nasdaq's disclosure controls and procedures are effective in alerting them on a timely basis to material information relating to Nasdaq (including its consolidated subsidiaries) required to be included in Nasdaq's periodic filings under the Exchange Act.

(b) . Changes in internal controls. Since the Evaluation Date, there have been no significant changes in Nasdaq's internal controls or in other factors that could significantly affect these controls.

Part IV

Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K.

(a)(1) Financial Statements

See "Index to Consolidated Financial Statements."

(a)(2) Financial Statement Schedules

None.

All other schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable, and therefore have been omitted.

(a)(3) Exhibits:

Exhibit Number	
3.1	Restated Certificate of Incorporation of The Nasdaq Stock Market, Inc.(+)
3.1.1	Certificate of Amendment of Restated Certificate of Incorporation of The Nasdaq Stock Market, Inc. (# #)
3.2	By-Laws of The Nasdaq Stock Market, Inc.(#)
3.2.1	First Amendment to By-Laws of The Nasdaq Stock Market, Inc.
3.3	Certificate of Designations of The Nasdaq Stock Market, Inc.'s Series A Cumulative Preferred Stock. (>)
3.4	Certificate of Designations of The Nasdaq Stock Market, Inc.'s Series B Preferred Stock. (>)
4.1	Form of Common Stock certificate.(+)
4.2	Form of Note for The Nasdaq Stock Market, Inc.'s 5.83% Senior Notes due May 9, 2007. (>>)
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.(+)
9.3	Second Amendment to the Voting Trust Agreement, dated as of July 18, 2002, among The Nasdaq Stock Market, Inc., the National Association of Securities Dealers, Inc., The Bank of New York and Mellon Investor Services, LLC. (++)
10.1	Network Service Agreement, dated November 19, 1997, between MCI Telecommunications Corporation and The Nasdaq Stock Market, Inc.*(+)
10.1.1	Amendment to EWN II Agreement, dated as of June 17, 2002, between WorldCom Communications, Inc. 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 January 1, 2002, 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.(+)
10.8.1	First Amendment to 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 by and between The Nasdaq Stock Market, Inc. and John L. Hilley, effective as of December 29, 2000.(+)
10.11.1	Amendment One to the Employment Agreement by and between The Nasdaq Stock Market, Inc. and John L. Hilley, effective as of February 1, 2002. (>)
10.12	Employment Agreement by and between The Nasdaq Stock Market, Inc. and Richard G. Ketchum, effective as of December 29, 2000.(+)
10.12.1	Amendment One to the Employment Agreement by and between The Nasdaq Stock Market, Inc. and Richard G. Ketchum, effective as of February 1, 2002. (>)
10.13	Employment Agreement by and between The Nasdaq Stock Market, Inc. and Hardwick Simmons, dated December 7, 2000, effective as of February 1, 2001.(+)
10.13.1	Amendment Number One to the Employment Agreement by and between The Nasdaq Stock Market, Inc., and Hardwick Simmons, effective as of February 1, 2001. (+)
10.13.2	Amendment Number Two to the Employment Agreement by and between The Nasdaq Stock Market, Inc., and Hardwick Simmons, effective as of February 1, 2002. (>)
10.14	Employment Agreement between The Nasdaq Stock Market, Inc. and Edward Knight, effective as of December 29, 2000.
10.14.1	First Amendment to Employment Agreement between The Nasdaq Stock Market, Inc. and Edward Knight, effective February 1, 2002.
10.15	Employment Letter from The Nasdaq Stock Market, Inc. to David Weild IV, dated March 8, 2001 as amended and restated March 21, 2002. (>)
10.16	Purchase and Sale Agreement, dated as of February 20, 2002, by and between The Nasdaq Stock Market, Inc., and the National Association of Securities Dealers, Inc. (>)
10.16.1	Investor Rights Agreement, dated as of February 20, 2002, between The Nasdaq Stock Market, Inc., and the National Association of Securities Dealers, Inc. (~)

10.17	Loan Agreement, dated December 28, 2001, by and between The Nasdaq Stock Market, Inc. and David P. Warren. (>)
10.18	Loan Agreement, dated December 30, 2001, by and between The Nasdaq Stock Market, Inc. and Steven Dean Furbush. (>)
10.19	Notes Purchase Agreement for 5.83% Senior Notes due May 9, 2002, dated as of May 9, 2002, among The Nasdaq Stock Market, Inc. and the purchasers named therein. (>>)
10.20	U.S. $150,000,000 364-Day Credit Agreement, dated as of August 29, 2002, among The Nasdaq Stock Market, Inc., Citibank, N.A., Credit Lyonnais New York Branch and certain banks named therein. (++)
10.21	Master Agreement, dated as of February 6, 2002, among The Nasdaq Stock Market, Inc., and The American Stock Exchange, LLC and The American Stock Exchange Corporation. * (++)
10.21.1	First Amendment to Master Agreement, dated as of December 9, 2002, among The Nasdaq Stock Market, Inc., and The American Stock Exchange, LLC and The American Stock Exchange Corporation. *

10.22	Technology Transition Agreement, dated as of February 6, 2002, among The Nasdaq Stock Market, Inc., The National Association of Securities Dealers, Inc. and The American Stock Exchange LLC. * (++)
11	Statement regarding computation of per share earnings (incorporated herein by reference to "Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K" of this Form 10-K).
12.1	Computation of Earnings to Fixed Charges.
21.1	List of all subsidiaries.
23.1	Consent of Ernst & Young LLP.
24.1	Powers of Attorney.
99.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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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.

(#) Previously filed with The Nasdaq Stock Market, Inc.'s Amendment No. 5 to Registration Statement on Form 10 (file number 000-32651) filed on November 16, 2001.

(~) Previously filed with The Nasdaq Stock Market, Inc.'s Current Report on Form 8-K filed on February 22, 2002.

(>) Previously filed with The Nasdaq Stock Market, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2001, filed March 28, 2002.

(>>) Previously filed with The Nasdaq Stock Market, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2002, filed on May 15, 2002.

(##) Previously filed with The Nasdaq Stock Market, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2002, filed on August 14, 2002.

(++) Previously filed with The Nasdaq Stock Market, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2002, filed on October 14, 2002.

(b) Reports on Form 8-K:

1. On October 28, 2002, Nasdaq furnished a Form 8-K, dated as of October 28, 2002, reporting under Item 9 thereof and containing supplemental financial information concerning Nasdaq for the period ended September 30, 2002.

(c) Exhibits:

See Item 14(a)(3) above.

(d) Financial Statement Schedules:

See Item 14(a)(2) above.

SIGNATURES

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on March 31, 2003.

THE NASDAQ STOCK MARKET, INC.

By /s/ HARDWICK SIMMONS

Name: Hardwick Simmons
Title: Chairman of the Board and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant in the capacities indicated as of March 31, 2003.

Name	Title
/s/ HARDWICK SIMMONS Hardwick Simmons	Chairman and Chief Executive Officer (Principal Executive Officer)
/s/ DAVID P. WARREN David P. Warren	Chief Financial Officer (Principal Financial Officer)
/s/ RONALD HASSEN Ronald Hassen	Controller (Principal Accounting Officer)
* H. Furlong Baldwin	Director
* Frank E. Baxter	Director
* Michael Casey	Director
* Michael W. Clark	Director
* William S. Cohen	Director
*	Director

F. Warren Hellman

/s/ RICHARD G. KETCHUM	President and Director
Richard G. Ketchum	
*	Director
John D. Markese	
*	Director
Vikram S. Pandit	
*	Director
Kenneth D. Pasternak	
*	Director
David S. Pottruck	
*	Director
Arthur Rock	
*	Director
Richard C. Romano	
*	Director
Arvind Sodhani	
*	Director
Sir Martin Sorrell	
*	Director
Thomas G. Stemberg	
*	Director
Thomas W. Weisel	
*	Director
Mary Jo White	

* Pursuant to Power of Attorney

By: /s/ EDWARD S. KNIGHT

Edward S. Knight
Attorney-in-Fact

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302(a) OF THE SARBANES-OXLEY ACT OF 2002

I, Hardwick Simmons, certify that:

1. I have reviewed this annual report on Form 10-K of The Nasdaq Stock Market, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

   c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 31, 2003

/s/ HARDWICK SIMMONS

Hardwick Simmons
Chairman and Chief Executive Officer

I, David P. Warren, certify that:

1. I have reviewed this annual report on Form 10-K of The Nasdaq Stock Market, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

   c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 31, 2003

/s/ DAVID P. WARREN

David P. Warren
Executive Vice President and Chief
Financial Officer

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:

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") as of December 31, 2002 and 2001, 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, 2002. 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 Nasdaq at December 31, 2002 and 2001, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2002 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 revenue.

Ernst & Young LLP

New York, NY
March 10, 2003

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

	December 31,	
	2002	**2001**
Assets		
Current assets:		
Cash and cash equivalents	$ 204,271	$ 293,731
Investments:		
Available-for-sale, at fair value	222,125	228,029
Held-to-maturity, at amortized cost	18,674	—
Receivables, net	166,471	200,057
Receivables from related parties	11,274	28,936
Deferred tax asset	53,048	51,170

Other current assets	21,143	13,249
Total current assets	697,006	815,172
Investments:		
Held-to-maturity, at amortized cost	9,756	28,569
Property and equipment:		
Land, buildings, and improvements	94,549	88,861
Data processing equipment and software	452,309	441,928
Furniture, equipment and leasehold improvements	192,091	184,572
	738,949	715,361
Less accumulated depreciation and amortization	(377,724)	(336,528)
Total property and equipment, net	361,225	378,833
Non-current deferred tax asset	69,971	74,987
Goodwill	10,138	10,138
Other intangible assets	6,505	9,331
Other assets	21,313	9,221
Total assets	$ 1,175,914	$ 1,326,251
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	$ 99,758	$ 123,136
Accrued personnel costs	47,511	43,744
Deferred revenue	64,633	65,366
Current portion of senior notes	11,329	—
Other accrued liabilities	40,510	48,667
Current obligation under capital lease	4,396	4,454
Payables to related parties	27,324	9,556
Total current liabilities	295,461	294,923
Senior notes	189,689	48,548
Subordinated notes	240,000	240,000
Non-current obligation under capital lease	7,735	12,125
Accrued pension costs	23,558	24,064
Non-current deferred tax liability	49,240	40,610
Non-current deferred revenue	102,065	121,687
Other liabilities	3,776	20,529
Total liabilities	911,524	802,486
Minority interests	(6,482)	5,377
Stockholders' equity		
Common stock, $.01 par value, 300,000,000 authorized, shares issued: 130,518,921 in 2002 and 130,161,823 in 2001; shares outstanding: 78,266,708 in 2002 and 111,700,285 in 2001	1,305	1,302
Preferred stock, 30,000,000 authorized, Series A: 1,338,402 shares issued and outstanding; Series B: 1 share issued and outstanding	133,840	—
Additional paid-in capital	358,237	348,457
Common stock in treasury, at cost: 52,252,213 shares in 2002 and 18,461,538 shares in 2001	(669,454)	(240,000)
Accumulated other comprehensive income	(2,326)	(6,976)
Deferred stock compensation	(1,920)	(3,350)
Common stock issuable	4,937	6,065
Retained earnings	446,253	412,890
Total stockholders' equity	270,872	518,388
Total liabilities, minority interests, and stockholders' equity	$ 1,175,914	$ 1,326,251

See accompanying notes to consolidated financial statements.

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

	Year ended December 31,		
	2002	2001	2000
Revenue			
Transaction Services	$ 380,690	$ 412,059	$ 398,514
Market Information Services	202,407	243,902	261,670
Corporate Client Group	176,671	156,124	149,297
Other	39,449	45,147	23,230
Total revenue	799,217	857,232	832,711
Expenses			
Compensation and benefits	192,437	183,369	137,284
Marketing and advertising	27,111	28,017	45,908
Depreciation and amortization	97,911	93,400	65,645
Professional and contract services	71,369	76,049	61,483
Computer operations and data communications	147,342	174,939	138,228
Provision for bad debts	8,426	15,459	5,554
Travel, meetings and training	13,513	14,593	12,113
Occupancy	34,352	27,183	14,766
Publications, supplies and postage	10,753	11,998	7,181
Nasdaq Japan impairment loss	15,208	—	—
Other	26,691	69,295	19,359
Total direct expenses	645,113	694,302	507,521
Support costs from related parties, net	74,968	101,799	128,522
Total expenses	720,081	796,101	636,043
Net operating income	79,136	61,131	196,668
Interest income	12,151	22,603	20,111
Interest expense	(19,590)	(10,643)	(2,778)
Minority interests	12,480	5,704	872
Net income before taxes	84,177	78,795	214,873
Provision for income taxes	(41,049)	(38,332)	(90,477)
Income before cumulative effect of change in accounting principle	43,128	40,463	124,396
Cumulative effect of change in accounting principle, net of taxes of $67,956 (Note 4)	—	—	(101,090)
Net income	$ 43,128	$ 40,463	$ 23,306
Net income applicable to common stockholders:			
Net income	$ 43,128	$ 40,463	$ 23,306
Accretion of preferred stock dividends	(9,765)	—	—
Net income applicable to common stockholders	$ 33,363	$ 40,463	$ 23,306

Basic and diluted earnings per share:			
Before cumulative effect of change in accounting principle	$ 0.40	$ 0.35	$ 1.11
Cumulative effect of change in accounting principle	—	—	(0.90)
Net income	$ 0.40	$ 0.35	$ 0.21

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 Capita1(1)	Common Stock in Treasury	Preferred Stock	Retained Earning
Balance, January 1, 2000	100,000,000	$ 1,000	$ 149	$ —	$ —	$
Net income	—	—	—	—	—	
Change in unrealized losses on available-for-sale investments, net of tax of $765	—	—	—	—	—	
Foreign currency translation net of minority interests of $(1,185)	—	—	—	—	—	
Comprehensive income for the year ended December 31, 2000.	—	—	—	—	—	
Capital contribution	—	—	30,000	—	—	
Minority interest resulting from original share of equity in Nasdaq Europe Planning Company Limited	—	—	(17,600)	—	—	
Adjustment to carrying amount of investment in Nasdaq Japan due to its private placement	—	—	7,784	—	—	
Net proceeds from Phase I offering	23,663,746	237	253,054	—	—	
Balance, December 31, 2000	123,663,746	$ 1,237	$ 273,387	$ —	$ —	$
Net income	—	—	—	—	—	
Change in unrealized losses on available-for-sale investments, net of tax of $(1,030)	—	—	—	—	—	
Foreign currency translation, net of minority interests of $340 and net of tax of $(380)	—	—	—	—	—	
Minimum pension liability, net of tax of $900	—	—	—	—	—	
Comprehensive income for the year ended December 31, 2001	—	—	—	—	—	
Net proceeds from Phase II offering	5,028,797	50	63,638	—	—	
Sale of subsidiary stock	—	—	6,930	—	—	
Purchase of minority interests in Nasdaq Europe Planning Company Limited	—	—	(12,400)	—	—	
Sale of warrants to purchase common stock	—	—	1,438	—	—	
Purchase of common stock for treasury	(18,461,538)	—	—	(240,000)	—	
Restricted stock awards, net of forfeitures	—	—	—	—	—	
Amortization and vesting of restricted stock	107,700	1	1,399	—	—	
Other purchases of common stock by related parties or affiliated entities	1,361,580	14	14,065	—	—	
Balance, December 31, 2001	111,700,285	$ 1,302	$ 348,457	$ (240,000)	$ —	$
Net income	—	—	—	—	—	
Change in unrealized losses on available-for-sale investments, net of tax of $1,158	—	—	—	—	—	
Foreign currency translation, net of minority interests of $100	—	—	—	—	—	
Minimum pension liability, net of tax of $(192)	—	—	—	—	—	
Comprehensive income for the year ended December 31, 2002	—	—	—	—	—	
Purchase of common stock for treasury	(33,768,895)	—	—	(429,454)	—	
Issuance of preferred stock	—	—	—	—	124,075	
Accretion of preferred stock dividends	—	—	—	—	9,765	
Capital contribution from NASD, net of distribution to NASD for insurance agency	—	—	5,069	—	—	
Adjustment of carrying value of Nasdaq Europe due to sale of securities to third party	—	—	728	—	—	
Restricted stock awards, net of forfeitures	—	—	—	—	—	
Amortization and vesting of restricted stock	116,660	1	1,747	—	—	
Other purchases of common stock by related parties or affiliated entities	218,658	2	2,236	—	—	
Balance, December 31, 2002	78,266,708	$ 1,305	$ 358,237	$ (669,454)	$ 133,840	$

(1) Gives effect to the June 28, 2000 49,999-for-one common stock dividend for the year ended December 31, 1999.

See accompanying notes to consolidated financial statements.

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

	Year ended December 31,		
	2002	2001	2000
Reconciliation of net income to cash provided by operating activities			
Net income	$ 43,128	$ 40,463	$ 23,306
Non-cash items included in net income:			
Cumulative effect of change in accounting principle, net of taxes	—	—	101,090
Depreciation and amortization	97,911	93,400	65,645
Amortization of restricted stock awards and other stock-based compensation	3,155	6,883	3,788
Minority interests	(12,480)	(5,704)	(872)
Provision for bad debts	8,426	15,459	5,554
Loss from equity method affiliates	12,114	17,224	2,160
Nasdaq Japan impairment loss	15,208	—	—
Deferred taxes	13,662	(23,178)	(67,063)
Other non-cash items included in net income	4,555	3,550	3,131
Net change in:			
Receivables, net	19,143	(27,292)	(65,439)
Receivables from related parties	23,679	(39,474)	(1,082)
Other current assets	(7,894)	2,112	(2,168)
Other assets	(4,121)	(22,297)	(8,850)
Accounts payable and accrued expenses	(28,678)	(14,024)	60,547
Accrued personnel costs	744	6,804	6,460
Deferred revenue	(20,355)	(17,484)	103,254
Other accrued liabilities	(9,085)	16,846	12,742
Obligation under capital lease	(4,448)	1,977	(14,237)

Payables to related parties	17,768	(11,555)	7,416
Accrued pension costs	(1,425)	10,329	3,317
Other liabilities	(13,862)	8,575	21,912
Cash provided by operating activities	157,145	62,614	260,611
Cash flow from investing activities			
Proceeds from redemptions of available-for-sale investments	209,181	369,573	154,931
Purchases of available-for-sale investments	(212,643)	(366,438)	(237,241)
Proceeds from maturities of held-to-maturity investments	—	25,465	10,811
Purchases of held-to-maturity investments	—	(25,455)	(10,973)
Acquisition, net of cash acquired	—	6,990	(16,979)
Capital contribution to Nasdaq LIFFE joint venture	(16,000)	(2,000)	—
Capital contribution to Nasdaq Deutschland AG	(6,100)	—	—
Purchases of property and equipment	(85,398)	(122,555)	(195,900)
Proceeds from sales of property and equipment	8,435	5,224	3,108
Cash used in investing activities	(102,525)	(109,196)	(292,243)
Cash flow from financing activities			
Proceeds from Phase I and Phase II private placement offering	—	63,688	253,291
Payments for treasury stock purchases	(305,155)	(240,000)	—
Increase in short-term borrowings	11,329	—	—
Increase in long-term debt	141,141	251,592	—
Purchase of minority interests in Nasdaq Europe Planning Company Ltd.	—	(27,361)	—
Issuances of common stock	2,238	14,079	—
Contribution from NASD, net of distribution	5,069	—	—
Contributions from minority shareholders	1,298	16,058	30,000
Cash (used in) provided by financing activities	(144,080)	78,056	283,291
(Decrease) increase in cash and cash equivalents	(89,460)	31,474	251,659
Cash and cash equivalents at beginning of year	293,731	262,257	10,598
Cash and cash equivalents at end of year	$ 204,271	$ 293,731	$ 262,257
Supplemental Disclosure of Non-Cash Flow Activities:			
Payments for treasury stock purchases with issuance of preferred stock	$ 124,075	$ —	$ —

See accompanying notes to consolidated financial statements.

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

1. Organization and Nature of Operations

The Nasdaq Stock Market, Inc. ("Nasdaq") operates the world's largest electronic screen-based equity securities market and the world's largest equity securities market based on share volume. Nasdaq is the parent company of Nasdaq Global Holdings ("Nasdaq Global"); Quadsan Enterprises, Inc. ("Quadsan"); Nasdaq Financial Products Services, Inc. ("Nasdaq Financial Products"); Nasdaq International Market Initiatives, Inc. ("NIMI"); and Nasdaq Canada, Inc. ("Nasdaq Canada") collectively referred to as "Nasdaq". These entities are wholly-owned by Nasdaq. Nasdaq Tools Inc. ("Nasdaq Tools"), previously a wholly-owned subsidiary of Nasdaq, was merged with and into Nasdaq on July 31, 2002 (See Note 2, Significant Transactions, for further discussion). At December 31, 2002, Nasdaq also owned approximately a 59.4% interest in Nasdaq Europe S.A./N.V. ("Nasdaq Europe") and a 50.0% interest in Nasdaq LIFFE Markets, LLC ("NQLX").

Nasdaq Global, which is incorporated in Switzerland, is the holding company for Nasdaq's investments in IndigoMarkets[sm] Ltd. ("IndigoMarkets") and Nasdaq Japan, Inc. ("Nasdaq Japan"), in which Nasdaq Global had 55.0% and 39.7% interests, respectively, as of December 31, 2002. During the second quarter of 2002, Nasdaq recognized an other-than-temporary impairment of its investment in Nasdaq Japan. On August 16, 2002 the Board of Directors of Nasdaq Japan voted to take the company to dormant status, effectively ceasing operations (See Note 2, Significant Transactions, for further discussion). Nasdaq Europe Planning Company, Limited ("Nasdaq Europe Planning") is owned by Nasdaq Global and Nasdaq. Nasdaq Europe Planning was formed to expand Nasdaq into the European community; however, it has been inactive due to the purchase of Nasdaq's interest in Nasdaq Europe. Nasdaq Europe is a pan-European market headquartered in Brussels. Nasdaq International Ltd. ("Nasdaq International"), a wholly-owned subsidiary of Nasdaq Global, is a London based marketing company. Quadsan is a Delaware investment holding company that provides investment management services for Nasdaq. Nasdaq Financial Products is the sponsor of the Nasdaq-100 Trust. Nasdaq Financial Product Services (Ireland) Limited ("Nasdaq Ireland") is a wholly-owned subsidiary of Nasdaq Financial Products. Nasdaq Ireland is the manager of The Nasdaq Exchange Traded Fund PLC. NIMI offers a variety of consulting services to assist emerging and established securities markets around the world with both technology applications and regulation. Nasdaq Canada was created to develop a new securities market within Canada under a cooperative agreement with the Provincial Government of Quebec.

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, a majority of NASD members approved a plan to broaden the ownership in Nasdaq through a two-phase private placement to all NASD members, Nasdaq issuers and institutional investor firms. The two phases consisted of (1) newly-issued shares of Nasdaq common stock, $.01 par value per share (the "Common Stock") and (2) additional shares of Common Stock and warrants to purchase shares of outstanding common stock owned by the NASD (the transactions collectively, the "Restructuring"). The Restructuring was intended, among other things, to strategically realign the ownership of Nasdaq, minimize potential conflicts of interest between Nasdaq and NASD Regulation, Inc. ("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 of the Restructuring ("Phase I"); (1) the NASD separated the American Stock Exchange LLC ("Amex") from The Nasdaq-Amex Market Group, Inc. ("Market Group"), a holding company that was a subsidiary of the NASD; (2) Market Group was merged with and into Nasdaq; (3) Nasdaq 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 new shares to be offered for sale by Nasdaq. All share and per share amounts have been retroactively adjusted to reflect the stock dividend.

Phase I 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 on a non-diluted basis.

The second phase of the Restructuring ("Phase II") closed on January 18, 2001, with Nasdaq selling approximately 5.0 million shares, yielding net proceeds of approximately $63.7 million. At December 31, 2001, the NASD owned approximately 69% of Nasdaq on a non-diluted basis and 25% on a fully-diluted basis. This reflected the sale by the NASD of 4.5 million shares of Common Stock and warrants to purchase 43.2 million shares of Common Stock in Phases I and II of the Restructuring, the repurchase by Nasdaq of 18.5 million shares of Common Stock from the NASD in May 2001 and the assumed conversion of all potentially dilutive securities.

On March 8, 2002, Nasdaq completed a two-stage repurchase (the "Repurchase") of 33,768,895 million shares of Common Stock owned by the NASD, which represented all of the remaining outstanding shares of Common Stock owned by the NASD, except for the 43,225,976 million shares of Common Stock underlying the warrants issued by the NASD in Phase I and II. Nasdaq purchased the Common Stock for approximately $305.2 million in aggregate cash consideration, 1,338,402 million shares of Nasdaq's Series A Cumulative Preferred Stock (face and liquidation value of $100 per share, plus any accumulated unpaid dividends) and one share of Nasdaq's Series B Preferred Stock, (face and liquidation value of $1.00 per share). The NASD owns all of the outstanding shares of Series A and Series B Preferred Stock. All of the shares of Common Stock repurchased by Nasdaq from the NASD are no longer outstanding and are held in Common Stock in treasury. At December 31, 2002, the NASD owned approximately 55.2% of Nasdaq on a non-diluted basis and 0.0% on a diluted basis (assuming the full exercise of all warrants purchased in Phase I and II of the Restructuring).

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

2. Significant Transactions

Repurchase of Shares from the NASD

On March 8, 2002, Nasdaq completed the Repurchase by purchasing 33,768,895 shares of Nasdaq's Common Stock owned by the NASD, which represented all of the remaining outstanding shares of Common Stock owned by the NASD, except for the 43,225,976 shares of Common Stock underlying the warrants issued by the NASD as part of the Restructuring. Nasdaq purchased the Common Stock for approximately $305.2 million in aggregate cash consideration, 1,338,402 shares of Nasdaq's Series A Cumulative Preferred Stock (face and liquidation value of $100 per share, plus any accumulated unpaid dividends) and one share of Nasdaq's Series B Preferred Stock, (face and liquidation value of $1.00 per share). The NASD owns all of the outstanding shares of Series A and Series B Preferred Stock. All of the shares of Common Stock repurchased by Nasdaq from the NASD have been placed into Common Stock in treasury. (See Note 19, Capital Stock, for further discussion.)

Nasdaq Common Stock

On July 1, 2002, the Common Stock of Nasdaq began trading under the symbol "NDAQ" on the Over-the-Counter Bulletin Board. The limited trading of the security began upon the expiration of the contractual transfer restrictions imposed in connection with the sale of Common Stock by Nasdaq and the NASD in Phase I and Phase II of the Restructuring that occurred in June 2000 and January 2001, respectively.

Nasdaq Japan

During the second quarter of 2002, Nasdaq recognized an other-than-temporary impairment of its investment in Nasdaq Japan. Nasdaq recognized this impairment as a result of the depressed level of market activity in Japan, combined with the suspension of Nasdaq Japan's hybrid trading system due to the inability to gain exchange approval of market rules and industry participation. These conditions led management to conclude that Nasdaq Japan would not be profitable in the foreseeable future. Accordingly, Nasdaq Japan did not have the capacity to raise capital to fund its operations beyond 2002. Thus, Nasdaq Japan's financial liabilities to Nasdaq were not expected to be repaid and were recognized as a loss.

The net impact of the other-than-temporary impairment on Nasdaq's pre-tax income for the year ended December 31, 2002 was $15.2 million. This represented a complete write-down of the investment, outstanding and unfunded loans (an additional $6.0 million was loaned and $7.0 million was committed during the second quarter of 2002), foreign exchange translation losses and other receivables, partially offset by a re-valuation of certain variable Nasdaq Japan stock based awards of approximately $7.9 million.

On August 16, 2002, the Board of Directors of Nasdaq Japan voted to take the company to dormant status, effectively ceasing operations. Shareholders of Nasdaq Japan subsequently ratified this decision. Nasdaq Japan is currently in liquidation status and is expected to be completely dissolved in the second quarter of 2003. Companies listed on the Nasdaq Japan market retained their listing on the Osaka Exchange and experienced no disruption to trading.

Nasdaq Tools

On July 31, 2002, Nasdaq Tools, which provides software products and services related to the broker-dealer industry to be used in conjunction with Nasdaq Workstation II software, was merged into Nasdaq in a statutory merger under the General Corporation Law of the State of Delaware. Nasdaq Tools was previously a wholly-owned subsidiary of Nasdaq. Nasdaq Tools now operates as a part of Nasdaq's Transaction Services business products. Prior to July 31, 2002, revenue from Nasdaq Tools was disclosed as Other revenue. As such, prior period amounts have been reclassified to Transaction Services to conform with the current period presentation.

Nasdaq Deutschland

On October 30, 2002, Nasdaq's majority-owned subsidiary, Nasdaq Europe, and the Berlin and Bremen Stock Exchanges, as well as comdirekt bank, Commerzbank and Dresdner Bank, signed definitive agreements dated as of October 4, 2002 to recapitalize Bremer Wertpapierbörse AG, a German stock exchange, that will be rebranded as "Nasdaq Deutschland AG" and that will be marketed under the Nasdaq brand. The recapitalization of Bremer Wertpapierbörse AG was finalized on January 21, 2003. This exchange, which will be subject to the German public law entity resulting from the merger of the Bremen Stock Exchange and the Berlin Stock Exchange, will initially be majority-owned by Nasdaq Europe. Trading in German and international blue chip and growth stocks began on March 21, 2003. Nasdaq has agreed to guarantee the provision of certain support and maintenance services for Nasdaq Deutschland's trading platform for a limited period in certain

circumstances if Nasdaq Europe no longer provides such services. (See Note 17, Commitments and Contingencies, for further discussion.)

Nasdaq Member Revenue Sharing

Effective June 1, 2002, Nasdaq terminated its market data revenue sharing program for securities listed on The Nasdaq Stock Market, as a result of the SEC's decision to abrogate certain market participant tape sharing pilot programs. The SEC's action was in response to concerns about the effect of market data rebates on the accuracy of market data and the regulatory functions of self-regulatory organizations. The SEC's action allows Nasdaq and competing exchanges to retain tape revenue. Nasdaq continues to share market data revenue with the exchanges that participate in the Unlisted Trading Privileges ("UTP") Plan based on their respective share of volume and trades of securities listed on The Nasdaq Stock Market. In addition, Nasdaq InterMarket continues to share tape revenue with Nasdaq market participants who report trades in NYSE and Amex listed securities through Nasdaq.

Other Restructuring and Related Party Transactions

In conjunction with settling various issues associated with the Restructuring, the NASD made a payment to Nasdaq in the amount of $5.6 million during the first quarter of 2002. Nasdaq treated the payment as a contribution and reflected it in Additional paid-in capital on its Consolidated Balance Sheet. In addition, during December 2002, Nasdaq purchased the NASD's 50.0% interest in the NASD Insurance Agency, LLC (subsequently renamed the Nasdaq Insurance Agency, LLC) for $0.5 million. The payment was recorded as a distribution to the NASD. Nasdaq accounts for its investment in the Nasdaq Insurance Agency under the equity method of accounting. The agency provides insurance brokerage services and specializes in the director and officer liability insurance market.

Reduction in Force

During 2002, Nasdaq recorded a charge of $4.5 million for severance and outplacement costs associated with staff reduction plans. In the first quarter of 2002, a charge of $0.9 million was recorded and 34 positions were eliminated. In the fourth quarter of 2002, a charge of $3.6 million was recorded and 105 positions were eliminated.

Hellman & Friedman Capital Partners, IV

On May 3, 2001, Nasdaq issued and sold $240.0 million in aggregate principal amount of 4.0% convertible subordinated notes due 2006 (the "Subordinated Notes") to Hellman & Friedman Capital Partners IV, L.P. and certain of its affiliated limited partnerships (collectively, "Hellman & Friedman"). Nasdaq used the proceeds from the sale of the Subordinated Notes to purchase 18,461,538 shares of Common Stock from the NASD for $13.00 per share. On November 12, 2001, Nasdaq sold an aggregate amount of 500,000 shares of Common Stock to Hellman & Friedman for an aggregate offering price of $5,125,000, which was the fair value at that date. (See Note 11, Subordinated Notes, and Note 19, Capital Stock, for further discussions.)

Nasdaq Europe S.A./N.V.

On March 27, 2001, Nasdaq acquired a majority ownership interest in the European Association of Securities Dealers Automated Quotation S.A./N.V., a pan-European stock market headquartered in Brussels, for approximately $12.5 million. Nasdaq renamed the company Nasdaq Europe S.A./N.V. ("Nasdaq Europe") as part of a plan to restructure it into a globally linked, pan-European market. Nasdaq's acquisition was accounted for under the purchase method of accounting, resulting in the initial recording of goodwill of approximately $4.7 million. During 2001, Nasdaq purchased an

additional 2.0% ownership of Nasdaq Europe for approximately $6.0 million and sold 1.2% of its ownership in Nasdaq Europe to a third party. Also during 2001, Nasdaq Europe sold additional shares representing a 9.0% ownership interest for approximately $13.9 million to third party investors. In the first quarter of 2002, Nasdaq Europe sold additional shares to a third party, resulting in an increase of $0.7 million to Nasdaq's stockholders' equity.

In October 2002, Nasdaq Europe's strategic investors committed to convert approximately $18.6 million or 73.8% of Nasdaq Europe's external debt to equity ($44.5 million or 87.1% including intercompany debt with Nasdaq). The conversion was formally approved by Nasdaq Europe's Board in March 2003 and is expected to close in May 2003. After the conversion is completed, Nasdaq will have a 60.3% ownership interest in Nasdaq Europe.

Nasdaq Europe Planning Company Limited

In February 2000, the NASD formed a joint venture, Nasdaq Europe Planning, with three partners, whereby each partner contributed $10.0 million in cash. Nasdaq Europe Planning's proposed joint venture did not occur due to a strategic decision to pursue a strategy for European expansion through the acquisition in March 2001 of a controlling interest in Nasdaq Europe rather than through Nasdaq Europe Planning. As a result, Nasdaq agreed to repurchase the ownership interests of the three other shareholders in Nasdaq Europe Planning for $10.0 million each, thereby unwinding the joint venture. The repurchase of two of the shareholders was completed in the first quarter of 2001 for cash payments of $10.0 million each. The repurchase from the third shareholder was completed in the fourth quarter of 2001 for aggregate consideration estimated at $10.0 million, comprised of cash of $7.4 million, a warrant to purchase up to 479,648 shares of Common Stock, and 7,211 shares of Nasdaq Europe. As of December 31, 2002 and 2001, Nasdaq owned 100.0% of Nasdaq Europe Planning.

Nasdaq LIFFE Markets, LLC

On June 1, 2001, Nasdaq signed an agreement with the London International Financial Futures and Options Exchange ("LIFFE") creating NQLX, a U.S. joint venture company to list and trade single stock futures. On November 8, 2002, Nasdaq launched NQLX, an electronic exchange offering a broad range of futures contracts. NQLX is an independent exchange. (See Note 8, Joint Ventures and Equity Method Investments, for further discussion.)

3. Summary of Significant Accounting Policies

Principles of Consolidation

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

Use of Estimates

The preparation of consolidated 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 consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include cash in banks and all non-restricted highly liquid investments purchased with a remaining maturity of three months or less at the time of purchase. Such equivalent

investments included in cash and cash equivalents in the Consolidated Balance Sheets were $195.1 million and $280.1 million at December 31, 2002 and 2001, respectively. Cash equivalents are carried at cost plus accrued interest, which approximates fair value.

Investments

Under SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," ("SFAS 115") 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.

Nasdaq regularly monitors and evaluates the realizable value of its securities portfolio. When assessing securities for other-than-temporary declines in value, Nasdaq considers such factors as, among other things, the duration to which the market value had been less than cost, the performance of the investee's stock price in relation to the stock price of its competitors within the industry and the market in general, any news that has been released specific to the investee and the outlook for the overall industry in which the investee operates. Nasdaq also reviews the financial statements of the investee to determine if the investee is experiencing financial difficulties. If events and circumstances indicate that a decline in the value of these assets has occurred and is deemed to be other- than-temporary, the carrying value of the security is reduced to its fair value and the impairment is charged to earnings.

Receivables, net

Nasdaq's receivables are concentrated with NASD member firms, market data vendors and Nasdaq-listed companies. 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 $5.9 million and $7.4 million at December 31, 2002 and 2001, respectively.

Property and Equipment

Property and equipment including leasehold improvements, are carried at cost less accumulated depreciation and amortization. Land is recorded at cost. Equipment acquired under capital leases is recorded at the lower of fair market value or the present value of future lease payments. Depreciation is generally recognized over the estimated useful lives of the related assets. Leasehold improvements are amortized over the shorter of their estimated useful lives or the remaining term of the related lease. Depreciation and amortization are computed by the straight-line method. Depreciation expense was $91.6 million, $82.4 million and $60.2 million for the years ended December 31, 2002, 2001 and 2000, respectively.

Property and equipment includes capital leases of $22.6 million and $26.9 million, and accumulated amortization of $10.5 million each for the years ending December 31, 2002 and 2001, respectively.

Goodwill and Other Intangible Assets

Goodwill represents the excess of purchase price and related costs over the value assigned to the net tangible and identifiable intangible assets of businesses acquired. As a result of the adoption of SFAS 142, "Goodwill and Other Intangible Assets" ("SFAS 142") in the first quarter of fiscal 2002,

goodwill and certain intangibles will no longer be amortized, but instead tested for impairment at least annually. Based on the impairment tests performed, there was no impairment of goodwill as of December 31, 2002. There can be no assurance that future goodwill impairment tests will not result in a charge to earnings. For the years ended December 31, 2001 and 2000 goodwill and other intangible assets were amortized using the straight-line method over their estimated period of benefit, ranging from five to 10 years. Nasdaq evaluates the recoverability of intangible assets and takes into account events or circumstances that warrant revised estimates of useful lives or that indicate an impairment exists. As of December 31, 2002 and 2001, goodwill and other intangibles were $16.6 million and $19.4 million, respectively. Goodwill amortization expense was $1.6 million and $1.1 million for the years ended December 31, 2001 and 2000, respectively. Other intangible asset amortization expense was $2.6 million, $2.4 million and $2.0 million for the years ended December 31, 2002, 2001 and 2000, respectively.

Impairment of Long-Lived Assets

In the event that facts and circumstances indicate that long-lived assets or other assets may be impaired, 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

Transaction services revenue is variable, and is based on service volumes, and is recognized as transactions occur. Market information services revenue is based on the number of presentation devices in service and market data information quotes delivered through those devices. This revenue is recorded net of amounts due under revenue sharing arrangements with market participants. Market information services revenue is recognized in the month that information is provided. Corporate Client Group revenue includes annual fees, initial listing fees and listing of additional shares ("LAS") fees. Annual fees are recognized ratably over the following 12-month period. Effective January 1, 2000, initial listing and LAS fees are recognized on a straight-line basis over estimated service periods, which are six and four years, respectively. Prior to 2000, initial listing fees were recognized in the month listing occurred and LAS fees were recognized in the period the additional shares were issued. (See Note 4, Change in Accounting Principle, for further discussion.)

Stock Compensation

Nasdaq accounts for stock option grants in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," ("APB 25"). Nasdaq grants stock options with an exercise price equal to the fair market value of the stock at the date of the grant, and accordingly, recognizes no compensation expense related to such grants. Pro forma disclosures of net income and earnings per share as if the fair value method had been applied in measuring compensation expense is provided in Note 14, Stock Compensation and Stock Awards.

Deferred Revenue

Deferred revenue represents cash received and billed receivables for Corporate Client Group, which are unearned until services are provided.

Advertising Costs

Nasdaq expenses advertising costs, which include media advertising and production costs, 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 $13.4 million, $13.8 million and $35.3 million for 2002, 2001 and 2000, 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 seven years. All other purchased software is charged to expense as incurred.

The provisions of Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" ("SOP 98-1") require certain costs incurred in connection with developing or obtaining internal use software to be capitalized. Unamortized capitalized software development costs of $70.2 million and $65.2 million as of December 31, 2002 and 2001, respectively, are carried in data processing equipment and software in the Consolidated Balance Sheets. Amortization of costs capitalized under SOP 98-1 totaled $14.3 million, $7.0 million and $2.3 million for 2002, 2001 and 2000, respectively, and are included in depreciation and amortization in the Consolidated Statements of Income. Additions to capitalized software were $19.3 million and $39.3 million in 2002 and 2001, respectively.

Income Taxes

Nasdaq and its eligible subsidiaries file a consolidated U.S. federal income tax return and all applicable state and local returns. Nasdaq uses the asset and liability method required by SFAS No. 109, "Accounting for Income Taxes", to provide income taxes on all transactions recorded in the consolidated financial statements. 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 are realized. If necessary, a valuation allowance is established to reduce deferred tax assets to the amount that is more likely than not to be realized.

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. Revenue and expenses are translated at average exchange rates during the year. Translation adjustments resulting from this process are charged or credited to other comprehensive income. Foreign currency translation also includes the translation of gains and losses for non-U.S. equity method investments.

Minority Interests

Minority interests in the Consolidated Balance Sheets represent 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, principally Nasdaq Europe and IndigoMarkets. See Note 2, Significant Transactions, for further discussion of Nasdaq Europe's conversion of debt to equity.

Reclassifications

Certain reclassifications have been made to prior year balances in order to conform to the current year presentation.

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 its Registration Statement on Form 10. As a result of discussions with the SEC, Nasdaq changed its method of accounting for revenue recognition for certain components of its Corporate Client Group revenue.

In accordance with accounting principles generally accepted in the United States, 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 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 the adoption of SAB 101, 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 for 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:

(in thousands)		
Deferred initial listing 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, revenue 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 years ended December 31, 2002, 2001 and 2000, Nasdaq recognized $31.6 million, $44.9 million, and $55.7 million in revenue, respectively, that was included in the cumulative effect adjustment as of January 1, 2000. This revenue contributed $19.2 million (after income taxes of $12.4 million), $27.3 million (after income taxes of $17.6 million), and $33.3 million (after income taxes of $22.4 million), to net income for the years ended December 31, 2002, 2001 and 2000, respectively.

Deferred Revenue

Nasdaq's deferred revenue as of December 31, 2002 relating to Corporate Client Group revenues will be recognized in the following years:

(in thousands)		Initial		LAS		Annual and Other		Total
Fiscal year ended								
2003	$	30,993	$	33,640	$	—	$	64,633
2004		26,267		23,098		—		49,365
2005		19,962		13,213		—		33,175
2006		9,777		2,855		—		12,632
2007 and thereafter		6,858		35		—		6,893
	$	93,857	$	72,841	$	—	$	166,698

Nasdaq's deferred revenue for the year ended December 31, 2002 and 2001 is reflected in the following tables. The additions reflect Corporate Client Group revenue charged during the year while the amortization reflects Corporate Client Group revenue recognized during the year based on SAB 101.

(in thousands)		Initial		LAS		Annual and Other		Total
Balance at January 1, 2002	$	104,629	$	82,424	$	—	$	187,053
Additions		22,840		27,948		105,528		156,316
Amortization		(33,612)		(37,531)		(105,528)		(176,671)
Balance at December 31, 2002	$	93,857	$	72,841	$	—	$	166,698

(in thousands)		Initial		LAS		Annual and Other		Total
Balance at January 1, 2001	$	127,693	$	76,651	$	—	$	204,344
Additions		12,602		41,637		84,594		138,833
Amortization		(35,666)		(35,864)		(84,594)		(156,124)
Balance at December 31, 2001	$	104,629	$	82,424	$	—	$	187,053

5. Real Estate Developments

During the fourth quarter of 2001, as a result of the terrorist attacks on September 11, 2001, Nasdaq decided to relocate its New York City headquarters from One Liberty Plaza, which was adjacent to the site where the World Trade Center Towers stood, to a location closer to its Times Square MarketSite Building. As of December 31, 2001, Nasdaq was obligated under the terms of its One Liberty Plaza lease to pay $106.9 million over the remaining life of the lease and recorded an estimated loss on the sublease of $21.5 million, which was included in Other expenses on the Consolidated Statements of Income.

Nasdaq signed a lease commencing May 1, 2002 at 1500 Broadway, directly across from the MarketSite building and began marketing the space at its One Liberty Plaza location. Due to the softening of the real estate market in lower Manhattan, Nasdaq reconsidered its decision to relocate to 1500 Broadway and decided to support the downtown Manhattan community and maintain its headquarters at One Liberty Plaza. As a result of the decision to remain at One Liberty Plaza, Nasdaq reevaluated the loss recorded in 2001 for One Liberty Plaza as well as its original plans to move to 1500 Broadway. As of December 31, 2002, Nasdaq was obligated under the terms of its 1500 Broadway

lease to pay $84.5 million over the life of the lease. At December 31, 2002, the estimated loss on the sublease (including interest accretion) is approximately $23.2 million including leasehold improvements. The estimated loss was calculated using an 8% net discount rate and an estimated 22-year sublease term commencing December 2003 at estimated market rates. Nasdaq will continue to evaluate its estimated loss on 1500 Broadway.

In addition, it was necessary for Nasdaq to make certain non-budgeted expenditures relating to September 11, 2001, including, but not 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. These other third and fourth quarter 2001 expenses of $1.7 million were included in Other expenses on the Consolidated Statements of Income. To date, Nasdaq has received $0.4 million of insurance reimbursement relating to the above claim and is included in Other revenue on the Consolidated Statements of Income.

6. 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 that are carried at fair value as of December 31, 2002:

	Available-for-Sale Securities			
(in thousands)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value

December 31, 2002				
U.S. Treasury securities and obligations of U.S. government agencies	$ 115,941	$ 801	$ 137	$ 116,605
Obligations of states and political subdivisions	12,726	128	—	12,854
Asset-backed securities	24,645	179	—	24,824
U.S. corporate securities	55,865	404	91	56,178
Total debt securities	209,177	1,512	228	210,461
Equity securities	13,946	513	2,795	11,664
Total	$ 223,123	$ 2,025	$ 3,023	$ 222,125

At December 31, 2002, all held-to-maturity investments consisted of U.S. Treasury securities and obligations of U.S. government agencies. The cost of the securities were $28.4 million and had gross unrealized capital gains of $577 thousand and a total estimated fair value of $29.0 million at December 31, 2002.

Following is a summary of investments classified as available-for-sale which are carried at fair value as of December 31, 2001:

	Available-for-Sale Securities			
(in thousands)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2001				
U.S. Treasury securities and obligations of U.S. government agencies	$ 156,197	$ 1,749	$ 207	$ 157,739
Obligations of states and political subdivisions	45,670	817	61	46,426
Asset-backed securities	1,042	33	—	1,075
U.S. corporate securities	5,537	92	90	5,539
Total debt securities	208,446	2,691	358	210,779
Equity securities	17,373	1,595	1,718	17,250
Total	$ 225,819	$ 4,286	$ 2,076	$ 228,029

At December 31, 2001, all held-to-maturity investments consisted of U.S. Treasury securities and obligations of U.S. government agencies. The cost of the securities were $28.6 million and had gross unrealized capital gains and losses of $570 thousand and $31 thousand, respectively, and a total estimated fair value of $29.1 million at December 31, 2001.

The cost and estimated fair value of debt and marketable equity securities classified as available-for-sale that are carried at fair value at December 31, 2002, by contractual maturity, are shown below.

		Gross Unrealized		
(in thousands)	Cost	Gain	Loss	Fair Value
Due in one year or less	$ 70,514	$ 101	$ 138	$ 70,477
Due after one through five years	118,493	579	90	118,982
Due after five through 10 years	18,647	696	—	19,343
Due after 10 years	1,523	136	—	1,659
Total debt securities	209,177	1,512	228	210,461
Equity securities	13,946	513	2,795	11,664
Total	$ 223,123	$ 2,025	$ 3,023	$ 222,125

All investments classified as held-to-maturity mature in 2003 and 2004 in the amounts of $18.7 million and $9.7 million, respectively.

During the years ended December 31, 2002 and 2001, debt and marketable equity available-for-sale securities with a fair value at the date of sale of $222.5 million and $396.6 million, respectively, were sold. For the years ended December 31, 2002, 2001 and 2000, the gross realized gains on such sales totaled $3.0 million $1.8 million and $2.8 million, respectively and the gross realized losses totaled $2.9 million, $4.2 million and $1.0 million, respectively. The net adjustment after tax to unrealized holding gains (losses) on available-for-sale securities included as a separate component of stockholders' equity totaled ($1.1) million, ($1.2) million and ($0.2) million for 2002, 2001 and 2000 respectively. The net adjustment to unrealized gains (losses) on available-for-sale securities included as a separate component of stockholders' equity due to the sale of securities totaled ($0.9) million, $2.1 million and ($1.2) million for 2002, 2001 and 2000, respectively.

In accordance with SFAS 115, Nasdaq recognized a pre-tax charge of $1.0 million in the fourth quarter of 2002 attributable to the impairment of certain publicly-traded equity securities. The

impairment charge was related to the decline in the fair value of Nasdaq's publicly-traded equity investments below their cost basis that was judged to be other-than-temporary. Nasdaq recorded the impairment loss in the Consolidated Statements of Income and adjusted the cost basis of respective securities down to fair value as a new cost basis.

At December 31, 2002 and 2001, investments with a carrying value of approximately $28.4 million and $28.6 million were pledged as collateral for Nasdaq's $25.0 million note payable. (See Note 10, Senior Notes and Credit Facility, for further information.)

In connection with the OptiMark, Inc. ("OptiMark") partnership, OptiMark issued warrants to Nasdaq to purchase up to an aggregate of 11.25 million shares of its common stock, $.01 par value per share, which expire in 2004. 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.

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 Trading System. As a result, Nasdaq management concluded that its investment in warrants in OptiMark as well as the realization of the deferred revenue related to these warrants was impaired and reduced its investment in warrants and related deferred revenue to zero. As of December 31, 2002, Nasdaq still considered the investment in warrants and the related deferred revenue impaired.

7. Goodwill and Other Intangible Assets

At December 31, 2002 and 2001, Nasdaq had goodwill of $10.1 million related to its acquisitions of Nasdaq Europe and Nasdaq Tools.

Intangible assets with a definite life continue to be amortized over their estimated useful lives. At December 31, 2002 and December 31, 2001, Nasdaq has intangible assets of $6.5 million and $9.3 million (net of accumulated amortization of $7.2 million and $4.6 million), respectively. Nasdaq estimates amortization expense of $2.7 million in both 2003 and 2004 and $0.6 million in 2005.

Through December 31, 2001, goodwill was amortized over periods of five to 10 years on a straight-line basis. The following table presents the impact of SFAS 142 on reported net income and earnings per share had the accounting standard been in effect for December 31, 2001 and 2000:

	Year ended December 31,		
(in thousands, except per share amounts)	2002	2001	2000
Net income- as reported	$ 43,128	$ 40,463	$ 23,306
Add back: Goodwill amortization (net of tax of $660 and $422 for December 31, 2001 and 2000, respectively)	—	1,023	654
Adjusted net income	$ 43,128	$ 41,486	$ 23,960
Basic earnings per share:			
Reported net income	$ 0.40	$ 0.35	$ 0.21
Add back: Goodwill amortization	—	0.01	0.01
Adjusted net income	$ 0.40	$ 0.36	$ 0.22

Diluted earnings per share:			
Reported net income	$ 0.40	$ 0.35	$ 0.21
Add back: Goodwill amortization	—	0.01	0.01
Adjusted net income	$ 0.40	$ 0.36	$ 0.22

8. Joint Ventures and Equity Method Investments

NQLX

On June 1, 2001, Nasdaq and LIFFE formed NQLX, a U.S. joint venture company to list and trade single stock futures. Nasdaq has committed up to $25.0 million plus the rights to use certain of its trademarks in this venture. Nasdaq made $2.0 million of capital contributions to the NQLX joint venture in 2001. During 2002, Nasdaq made additional contributions to NQLX of $16.0 million. An additional $7.0 million is expected to be contributed in 2003, which will fulfill Nasdaq's Board's initial approval of $25.0 million. On August 21, 2001, the Commodity Futures Trading Commission approved NQLX as a futures market and self-regulatory organization and on November 8, 2002 NQLX was launched. Through the end of 2002, NQLX operated under a fee holiday during which NQLX had no revenue. This fee holiday ended on March 31, 2003. Nasdaq accounts for its investment in NQLX under the equity method of accounting. In 2002 and 2001, Nasdaq recorded losses of approximately $9.0 million and $6.0 million, respectively representing its share of the losses incurred by NQLX. These losses are included in Other expenses in the Consolidated Statements of Income.

A condensed summary of assets and liabilities and results of operations for NQLX for 2002 and 2001 follows:

	December 31,	
(in thousands)	**2002**	**2001**
Condensed balance sheet information:		
Current assets	$ 5,279	$ 1,595
Non-current assets	5,156	3,085
Current liabilities	4,255	1,034
Non-current liabilities	—	10,287

	Year Ended December 31,	
(in thousands)	**2002**	**2001**
Condensed income statement information:		
Expenses	$ 17,399	$ 11,939
Loss from operations	(17,399)	(11,939)
Net loss	(17,807)	(11,919)

Nasdaq Japan

In 1999, the NASD contributed approximately $2.6 million for its initial 50.0% interest in Nasdaq Japan. After granting a restricted stock award of 4.0% of its shares, the NASD transferred its remaining 46.0% interest to Nasdaq Global. In October 2000, Nasdaq Japan sold an approximate 15.0% stake for approximately $48.0 million to a group of 13 major Japanese, U.S. and European brokerages, thereby reducing Nasdaq Global's interest from 46.0% to approximately 39.2%. As a result of the private placement, Nasdaq increased the carrying value of its investment by approximately $7.8 million, recorded through stockholders equity, to reflect its adjusted share of the book value of Nasdaq Japan. In 2001, Nasdaq invested an additional $7.4 million in Nasdaq Japan, increasing its ownership to 39.7%.

During the second quarter of 2002, Nasdaq recognized an other-than-temporary impairment of its investment in Nasdaq Japan. Nasdaq recognized this impairment as a result of the depressed level of market activity in Japan, combined with the suspension of Nasdaq Japan's hybrid trading system due to the inability to gain exchange approval of market rules and industry participation. These conditions led management to conclude that Nasdaq Japan would not be profitable in the foreseeable future.

On August 16, 2002, the Board of Directors of Nasdaq Japan voted to take the company to dormant status, effectively ceasing operations. Shareholders of Nasdaq Japan subsequently ratified this decision. After careful consideration of a range of options, Nasdaq Japan's Board concluded that under current economic circumstances there was not a profitable path forward for the company. A letter was sent to the Osaka Securities Exchange formally giving notice of termination of the Business Cooperation Agreement between the Osaka Exchange and Nasdaq Japan. Nasdaq Japan is currently in liquidation status and is expected to be completely dissolved in the second quarter of 2003. Companies listed on the Nasdaq Japan Market retained their listing on the Osaka Exchange and experienced no disruption to trading.

The net impact of the other-than-temporary impairment on Nasdaq's pre-tax income for 2002 was $15.2 million. This represented a complete write-down of the investment, outstanding and unfunded loans (an additional $6.0 million was loaned and $7.0 million was committed during 2002), foreign exchange translation losses and other receivables, partially offset by a re-valuation of certain variable Nasdaq Japan stock based awards of approximately $7.9 million.

Prior to the impairment loss recognized on its investment in Nasdaq Japan, Nasdaq accounted for its investment in Nasdaq Japan under the equity method of accounting. Including the impairment of $15.2 million Nasdaq recorded losses of $18.3 million in 2002 and $11.3 million in 2001. No additional losses are expected to be recorded regarding Nasdaq Japan.

A condensed summary of assets and liabilities and results of operations for Nasdaq Japan for the six months ended June 30, 2002 and for the years ended December 31, 2001 and 2000 follows:

(in thousands)	**June 30, 2002**	**December 31, 2001**
Condensed balance sheet information:		
Current assets	$ 10,300	$ 18,560
Non-current assets	3,967	16,940
Current liabilities	4,384	13,278
Non-current liabilities	15,137	6,065

		Year ended	
(in thousands)	**Six Months Ended June 30, 2002**	**December 31, 2001**	**December 31, 2000**
Condensed income statement information:			
Revenue	$ 1,187	$ 1,971	$ 1,144
Expenses	22,990	36,525	32,441
Loss from operations	(20,995)	(34,554)	(31,297)
Net loss	(21,009)	(35,381)	(31,962)

9. Fair Value of Financial Instruments

Nasdaq considers cash and cash equivalents, receivables, receivables from related parties, investments, accounts payable and accrued expenses, accrued personnel costs and senior notes and subordinated notes to be its financial instruments. The carrying amounts reported in the Consolidated Balance Sheets for cash and cash equivalents, receivables, receivables from related parties, investments, accounts payable and accrued expenses and accrued personnel costs closely approximates their fair values due to the short-term nature of these assets and liabilities. The approximate fair value of Nasdaq's senior notes, subordinated notes and obligations under capital leases was estimated using 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 these obligations at December 31, 2002 and 2001 approximates their carrying amounts.

10. Senior Notes and Credit Facility

On May 9, 2002, Nasdaq issued $150.0 million in aggregate principal amount of its 5.83% senior notes due 2007 (the "Senior Notes") in a private placement. The Senior Notes are unsecured, pay interest quarterly and may be redeemed by Nasdaq at any time, subject to a make-whole amount. The make-whole amount is equal to the excess of the discounted value of the remaining scheduled payments discounted at a factor equal to 50 basis points over the yield to maturity of U.S. Treasury securities having a maturity equal to the remaining average life of the redeemed amount. The proceeds from the Senior Notes, approximately $149.0 million after payment of placement agent commissions and expenses of this offering, were used to fund a portion of the cash consideration paid to the NASD in the Repurchase and for general corporate purposes. Interest expense under the agreement totaled approximately $5.6 million for the year ended December 31, 2002.

On August 29, 2002, Nasdaq entered into a $150.0 million unsecured revolving-credit facility as amended, (the "Facility"). The Facility, which is syndicated to five banks, makes $150.0 million available to Nasdaq for a 364-day term. Nasdaq intends to use the Facility for general corporate purposes. The interest rate applicable to borrowings under the Facility (a) for U.S. based loans will be based on the higher of Citibank N.A.'s base rate and 0.5 percent per annum above the then current Federal Funds rate and (b) for LIBOR loans will be based on the offered rate for deposits in the U.S. dollars with a comparable maturity plus 0.36 percent per annum. The Facility provides for an annual fee of 0.09% of the $150.0 million Facility. The Facility, as amended, has various covenants customary for this type of facility that require Nasdaq, among other things, to maintain various financial ratios such as consolidated long-term debt to capitalization, minimum tangible net worth and consolidated earnings before interest, taxes and depreciation and amortization to consolidated interest expense. Noncompliance with the terms of the Facility by Nasdaq could result in the cancellation of the Facility with any amounts outstanding under the Facility becoming payable immediately. At December 31, 2002, Nasdaq had not utilized the Facility, and the entire $150.0 million of the Facility was available.

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 installments 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, 2002, 2001 and 2000.

Nasdaq Europe has $26.0 million and $23.5 million of notes payable outstanding with third parties as of December 31, 2002 and 2001, respectively. These notes are denominated in Euros, and $11.3 million matures in 2003 and the remaining notes mature in 2004 or within five days of default of any loan covenant. Nasdaq Europe incurs interest expense at a rate of 6.0% on approximately $4.3 million of the notes and London Inter-Bank Offered Rate plus 1% on the remaining $21.7 million of the notes. Interest expensed and accrued totaled approximately $1.1 million and $0.8 million for the years ended December 31, 2002 and 2001, respectively.

Nasdaq Europe also has $21.7 million of intercompany loans with Nasdaq outstanding as of December 31, 2002. Nasdaq funded these loans to finance the operations of Nasdaq Europe and to enable Nasdaq Europe to invest in Nasdaq Deutschland AG, a venture among Nasdaq Europe, several German banks and two regional German exchanges (See Note 17, Commitments and Contingencies, for further discussion). Nasdaq has agreed to convert the intercompany loans from debt to equity if the majority of the European strategic partners also convert their debt to equity. In October 2002, Nasdaq Europe's strategic investors committed to convert approximately $18.6 million or 73.8% of Nasdaq Europe's external debt to equity ($44.5 million or 87.1% including intercompany debt with Nasdaq). The conversion was formally approved by Nasdaq Europe's Board in March 2003 and is expected to close in May 2003.

11. Subordinated Notes

On May 3, 2001, Nasdaq sold the Subordinated Notes to Hellman & Friedman. Until Nasdaq becomes registered with the SEC as a national securities exchange ("Exchange Registration"), Hellman & Friedman may only exercise its conversion rights for a number of shares of Common Stock such that immediately following such conversion, the NASD will continue to control greater than 50% of the combined voting power of Nasdaq. Nasdaq used the proceeds from the sale of the Subordinated Notes to purchase 18,461,538 shares of Common Stock from the NASD for $13.00 per share. The annual 4.0% coupon will be payable in arrears and the Subordinated Notes are 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.

In 2002, Nasdaq stockholders approved an amendment to Nasdaq's Restated Certificate of Incorporation (the "Certificate of Incorporation") that provided for voting debt. As a result, the holders of the Subordinated Notes may vote on an as-converted basis on all matters on which holders of common stock have the right to vote, subject to the current 5.0% voting limitation in the Certificate of Incorporation. Nasdaq has granted Hellman & Friedman certain registration rights with respect to the shares of Common Stock underlying the Subordinated Notes.

On an as-converted basis, Hellman & Friedman owned an approximate 13.9% equity interest as a result of these Subordinated Notes in Nasdaq as well as 500,000 shares owned of Common Stock as of December 31, 2002. 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 Notes and/or shares of Common Stock issued upon conversion thereof representing at least 50.0% of the shares of Common Stock issuable upon conversion of the Subordinated Notes initially purchased. F. Warren Hellman, chairman of Hellman & Friedman, serves as a director of Nasdaq pursuant to this agreement.

12. Income Taxes

The income tax provision consists of the following amounts:

(in thousands)	Years ended December 31, 2002	2001	2000
Current income taxes:			
Federal	$ 22,183	$ 50,625	$ 75,446
State	5,204	10,885	14,138
Total current income taxes	27,387	61,510	89,584
Deferred income taxes:			
Federal	11,259	(22,078)	(53,717)
State	2,403	(1,100)	(13,346)
Total deferred income taxes	13,662	(23,178)	(67,063)
Less deferred tax benefit attributable to cumulative effect of change in accounting principle	—	—	67,956
Total provision for income taxes	$ 41,049	$ 38,332	$ 90,477
Income taxes paid during the year	$ 79,117	$ 26,844	$ 101,171

A reconciliation of the U.S. federal statutory rate to Nasdaq's effective tax rate for the years ended December 31, 2002, 2001 and 2000 is as follows:

	Years ended December 31, 2002	2001	2000
Federal	35.0%	35.0%	35.0%
State	5.9	6.2	3.6
Foreign losses without U.S. benefit	12.0	15.9	2.9
Tax preferred investments	(0.9)	(6.9)	—
Tax credit	(2.8)	(4.6)	—
State temporary differences at a lower rate	—	1.9	—
Other	(0.4)	1.1	0.6
Effective rate	48.8%	48.6%	42.1%

The temporary differences, which give rise to Nasdaq's deferred tax assets and (liabilities) consisted of the following:

(in thousands)	December 31, 2002	2001
Deferred tax assets	$ 162,381	$ 155,441
Deferred tax liabilities	(51,538)	(41,981)
Net deferred tax asset before valuation allowance	$ 110,843	$ 113,460
Less: Valuation allowance	(39,362)	(29,284)
Net deferred tax asset	$ 71,481	$ 84,176

As of December 31, 2002 and 2001, respectively, deferred tax assets consisted primarily of book and tax differences related to deferred fees of $72.6 million and $78.3 million, foreign net operating losses of $33.3 million and $31.3 million, technology costs of $9.6 million and $11.8 million, and bad debts of $9.6 million and $5.9 million.

As of December 31, 2002 and 2001, respectively, deferred tax liabilities consisted primarily of book and tax differences related to software development costs of $35.9 million and $29.0 million, and depreciation of $10.8 million and $10.6 million.

The increase in the valuation allowance is due to an increase in foreign net operating losses. Of the $33.3 million foreign net operating losses at December 31, 2002, $11.0 million will expire 2007 through 2009 and $22.3 million have no expiration date. In addition, on December 31, 2002 and 2001, Nasdaq has a deferred tax asset related to a deferred capital loss carryforward of $6.1 million.

The following represents the domestic and foreign components of income (loss) before income tax expense:

(in thousands)	Years ended December 31,

	2002	2001	2000
Domestic	$ 113,716	$ 114,640	$ 233,647
Foreign	(29,539)	(35,845)	(18,774)
Income before income tax expense	$ 84,177	$ 78,795	$ 214,873

13. Employee Benefits

Nasdaq is a participating employer in a noncontributory, defined-benefit pension plan that the NASD sponsors for the benefit of its eligible employees and the 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.

In addition, Nasdaq participates in a Supplemental Executive Retirement Plan ("SERP") that is maintained by the NASD for certain senior executives.

The following table sets forth the combined plans' funded status and amounts recognized as of December 31:

(in thousands)	2002	2001
Change in benefit obligation		
Benefit obligation at beginning of year	$ 68,382	$ 53,667
Net employee transfers into plan	821	147
Service cost	7,460	7,032
Interest cost	4,972	4,519
Actuarial losses	4,373	5,384
Benefits paid	(10,279)	(4,860)
Plan amendments	411	1,127
Curtailments	—	(1,301)
Special benefits	—	760
Loss due to change in discount rate	5,961	1,907
Benefit obligation at end of year	82,101	68,382
Change in plan assets		
Fair value of plan assets at beginning of year	39,192	31,464
Net employee transfers into plan	1,201	8,419
Actual return on plan assets	(4,969)	848
Company contributions	9,206	3,321
Benefits paid	(10,279)	(4,860)
Fair value of plan assets at end of year	34,351	39,192
Underfunded status of the plan	(47,750)	(29,190)
Unrecognized net actuarial gain	25,534	7,305
Unrecognized prior service cost	1,464	1,585
Unrecognized transition asset	(279)	(337)
Accrued benefit cost	$ (21,031)	$ (20,637)
Weighted-average assumptions as of December 31:		
Discount rate	6.8%	7.3%
Expected return on plan assets	9.0	9.0
Rate of compensation increase	5.5	5.5

(in thousands)	2002	2001	2000
Components of net periodic benefit cost			
Service cost	$ 7,460	$ 7,032	$ 4,543
Interest cost	4,971	4,519	3,246
Expected return on plan assets	(3,529)	(3,311)	(2,533)
Amortization of unrecognized transition asset	(58)	(58)	(57)
Recognized net actuarial (gain)/ loss	(413)	160	145
Prior service cost recognized	474	465	131
Special benefits	—	760	—
Curtailment/settlement loss recognized	1,248	—	1,296
Benefit cost	$ 10,153	$ 9,567	$ 6,771

During 2002, there was a settlement of $1.2 million for employees included within the SERP plan due to early retirements. During 2001, there was a curtailment gain recognized of $1.3 million in the pension plan to reflect the reduction in force on June 26, 2001.

Pursuant to the provisions of SFAS No. 87 "Employer's Accounting for Pensions," related to the SERP, an intangible asset of $1.0 million and an adjustment to stockholders' equity of $1.4 million (net of tax of $0.9 million), were recorded as of December 31, 2001 to recognize the minimum pension liability. As of December 31, 2002, both the intangible asset and the adjustment to stockholders' equity were reduced to $0.6 million and $1.1 million (net of tax of $0.7 million), respectively.

Prior to April 1, 2002, Nasdaq participated in a voluntary savings plan for eligible employees of the NASD and its subsidiaries. As of April 1, 2002, in accordance with the Restructuring, Nasdaq formed its own voluntary savings plan and all amounts were transferred to this new plan. 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, 2002, 2001 and 2000, was $1.8 million, $5.9 million and $3.7 million, respectively. The expense includes a discretionary match authorized by the Nasdaq Board of Directors totaling $0.75 million for the year ended December 31, 2001 and $1.3 million for the year ended December 31, 2000. There was no discretionary match for 2002.

14. Stock Compensation and Stock Awards

Effective December 5, 2000, as amended on January 23, 2002, Nasdaq adopted The Nasdaq Stock Market, Inc. Equity Incentive Plan (the "Plan"), under which nonqualified and qualified incentive stock options, restricted stock, restricted stock units, or other stock based awards may be granted to employees, directors, officers and consultants. A total of 24,500,000 shares are authorized under the Plan. At December 31, 2002, 12,967,435 shares were available for future grants under the Plan.

In 2002, Nasdaq granted 2,155,279 stock options and 76,950 shares of restricted stock to employees and officers and 65,000 options to non-employee Board of Directors members pursuant to the Plan. During 2002, 919,851 stock options and 48,570 shares of restricted stock awards were forfeited.

Restricted stock awards are awarded in the name of the employee or officer at fair value on the date of the grant. The awards contain restrictions on sales and transfers, are generally subject to a five-year vesting period and are expensed over the vesting period. Nasdaq recognized $2.0 million and $4.1 million in amortization expense related to restricted stock during the years ended December 31, 2002 and December 31, 2001, respectively.

Stock options are granted with an exercise price equal to the estimated fair market value of the stock on the date of the grant. Nasdaq accounts for stock option grants in accordance with APB 25, and, accordingly, recognizes no compensation expense related to such grants.

Options granted generally vest over three years and expire 10 years from the date of grant. All options to date have been granted at fair market value on the date of grant. At December 31, 2002, options for 5,292,654 shares were vested, and exercisable with a weighted-average exercise price of $12.77. At December 31, 2001, options for 3,597,430 shares were vested, and exercisable with a weighted-average exercise price of $12.73.

Stock option activity during the year ended December 31, 2002 is set forth below:

	Shares	Price per Share			
		Range		Weighted Average	
Balance, January 1, 2002	9,625,587	$	10.25–$13.00	$	12.70
Granted	2,220,279	$	13.00–$19.70	$	13.65
Exercised	8,612	$	10.25–$13.00	$	10.65
Forfeited	919,851	$	10.25–$13.00	$	12.38
Balance, December 31, 2002	10,917,403	$	10.25–$19.70	$	12.91

Stock option activity during the year ended December 31, 2001 is set forth below:

	Shares	Price per Share			
		Range		Weighted Average	
Balance, January 1, 2001	—		—		—
Granted	10,795,223	$	10.25–$13.00	$	12.73
Exercised	—		—		—
Forfeited	1,169,636	$	10.25–$13.00	$	12.98
Balance, December 31, 2001	9,625,587	$	10.25–$13.00	$	12.70

Nasdaq has an employee stock purchase plan for all eligible employees. Under the plan, shares of Common Stock may be purchased at six-month intervals (each, an "Offering Period") at 85% of the lower of the fair market value on the first or the last day of each Offering Period. Employees may purchase shares having a value not exceeding 10% of their annual compensation, subject to applicable annual Internal Revenue Service limitations. During 2002 and 2001, employees purchased an aggregate of 210,046 and 326,580 shares at a weighted-average price of $10.22 and $10.63 per share, respectively.

Pro forma information regarding net income and earnings per share is required under SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123") and has been determined as if Nasdaq had accounted for all stock option grants based on the fair value method. The fair value of each stock option grant was estimated at the date of grant using the Black-Scholes valuation model assuming a weighted-average expected life of five years, weighted-average expected volatility of 30% and a weighted-average risk free interest rate of 4.31% and 4.68% for 2002 and 2001, respectively. The weighted-average fair value of options granted in 2002 and 2001 was $4.69 and $4.55, respectively.

Pro forma net income includes the amortization of the fair value of stock options over the vesting period and the difference between the fair value and the purchase price of common shares purchased by employees under the employee stock purchase plan. The pro forma information for the years ended December 31, 2002 and December 31, 2001 is as follows:

(in thousands, except per share amounts)	2002				2001			
	Reported		Pro forma		Reported		Pro forma	
Net income	$	43,128	$	37,639	$	40,463	$	25,104
Basic and diluted earnings per share	$	0.40	$	0.33	$	0.35	$	0.22

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 operations of Nasdaq Japan. These awards contained restrictions and were subject to vesting provisions,

generally three years. The options were granted at an exercise price of $125 per share, the estimated fair market value of the common stock at the time of the award. The options were exercisable for a period of seven years. As of December 31, 2001 there were 784 stock options outstanding to purchase shares of Nasdaq Japan held by Nasdaq Global, 261 of them exercisable with an approximate value of $6,175 per share. The restricted Common 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 were to vest over a two-year period. As of December 31, 2001, the restricted Common 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 options and restricted Common Stock awards were marked to market, and the fair value was being expensed over the vesting periods. Nasdaq recorded approximately $2.8 million and $3.8 million in compensation expense related to these awards in 2001 and 2000, respectively. During the second quarter of 2002, Nasdaq recognized a $15.2 million other-than-temporary impairment of its investment in Nasdaq Japan. Included in this impairment charge was a benefit for the revaluation of the stock based awards of approximately $7.9 million. As of December 31, 2002, the options outstanding have no value and effectively were cancelled. On August 16, 2002 the Board of Directors of Nasdaq Japan voted to take the company to dormant status, effectively ceasing operations. Nasdaq Japan is currently in liquidation status and is expected to be completely dissolved in the second quarter of 2003. (See Note 2, Significant Transactions, for further discussion.)

15. 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 $14.0 million, $11.0 million and $9.9 million for the years ended December 31, 2002, 2001 and 2000, respectively.

Future minimum lease payments under non-cancelable operating leases with initial or remaining terms of one year or more, (including the lease obligation at 1500 Broadway of $84.5 million, See Note 5, Real Estate Developments, for further discussion) consisted of the following at December 31, 2002:

(in thousands)		
Year ending December 31:		
2003	$	17,742
2004		20,458
2005		19,806
2006		19,765
2007		19,987
Remaining years		193,189
Total minimum lease payments	$	290,947

Future minimum lease payments under non-cancelable capital leases with initial or remaining terms of one year or more consisted of the following at December 31, 2002:

(in thousands)		
Year ending December 31:		
2003	$	5,222
2004		5,222
2005		3,048
Total minimum lease payments		13,492
Imputed interest		(1,361)
Present value of net minimum payments	$	12,131

16. Accumulated Other Comprehensive Income

Comprehensive income is composed of net income and other comprehensive income, which includes the after-tax change in unrealized gains and losses on available-for-sale securities, foreign currency translation adjustments and a minimum pension liability adjustment.

The following table outlines the components of other comprehensive income:

(in thousands)		Unrealized Gains (Losses)(a)		Translation Adjustments(b)		Minimum Pension Liability(c)		Accumulated Other Comprehensive Income
Balance, January 1, 2000	$	1,742	$	—	$	—	$	1,742
Net change		(1,421)		(2,213)		—		(3,634)
Balance, December 31, 2000		321		(2,213)		—		(1,892)
Net change		918		(4,607)		(1,395)		(5,084)

Balance, December 31, 2001	1,239	(6,820)	(1,395)	(6,976)
Net change	(2,048)	6,402 (d)	296	4,650
Balance, December 31, 2002	$ (809)	$ (418)	$ (1,099)	$ (2,326)

(a) Primarily represents the after-tax difference between the fair value and cost (after recognition of $0.7 million in an after tax other-than-temporary loss) of the available-for-sale securities portfolio.

(b) Includes after-tax gains and losses on foreign currency translation from operations for which the functional currency is other than the U.S. dollar.

(c) Represents the after-tax adjustment to record the minimum pension liability for the SERP.

(d) Approximately $2.4 million of foreign currency translation loss has been recognized in the "Nasdaq Japan impairment loss" line item on the Consolidated Statements of Income. (See Note 2, Significant Transactions, for further discussion.)

17. Commitments and Contingencies

As of December 31, 2002, €21.3 million ($22.3 million) was funded in the form of a loan from a commitment of €31.8 million ($33.4 million) for Nasdaq Europe. Of the funded amount, €15.5 million ($16.2 million) was used to finance the operations of Nasdaq Europe through 2002. The remaining €5.8 million ($6.1 million) was used to enable Nasdaq Europe to invest in Nasdaq Deutschland AG, a venture among Nasdaq Europe, several German banks and two regional German exchanges. Nasdaq has agreed to convert the aggregate amount of outstanding loans from debt to equity if the majority of

the European strategic partners also convert their debt to equity. In October 2002, Nasdaq Europe's strategic investors committed to convert 73.8% of Nasdaq Europe's external debt to equity (or 87.1% including intercompany debt with Nasdaq). The conversion was formally approved by Nasdaq Europe's Board in March 2003 and is expected to close in May 2003. An additional €10.5 million ($11.1 million) is expected to be contributed in 2003 for Nasdaq Europe operations, which will fulfill Nasdaq's Boards funding approval of €31.8 million ($33.4 million).

Nasdaq has agreed to guarantee the provision of certain support and maintenance services for the trading platform to be operated by Nasdaq Deutschland AG in the event Nasdaq Europe no longer provides such services due to circumstances including its liquidation or winding down. Nasdaq's obligation to provide services would continue for a period of 18 months from the date the guarantee is triggered, but in no event longer than three years from the date trading begins on the Nasdaq Deutschland exchange. Nasdaq will be obligated to perform under the guarantee only if Nasdaq Deutschland satisfies certain conditions, including minimum quarterly order flow requirements for periods starting in the fourth quarter of 2003. Nasdaq estimates the maximum cost of providing the services at €14.7 million ($15.4 million) over the term of the guarantee.

In December 2002, Nasdaq purchased the NASD's 50.0% interest in the NASD Insurance Agency (subsequently renamed the Nasdaq Insurance Agency, LLC ("NIA")). Nasdaq's consideration for the NASD's 50.0% interest consisted of an upfront payment of $0.5 million and up to $5.1 million based on NIA's stream of contingent cash flow through 2011. Nasdaq will pay (a) 20% of NIA's cash flows until Nasdaq has paid the NASD $2.3 million from cash flows; (b) 10% of NIA's cash flows until Nasdaq has paid the NASD a cumulative amount of $3.0 million from cash flows; (c) 5% of NIA's cash flows until Nasdaq has paid the NASD the full cumulative amount of $5.1 million from cash flows.

During 2001, Nasdaq agreed to fund a portion of the necessary expenses related to the separation of software, hardware and data under a plan to transition technology applications and support from Nasdaq to Amex. The NASD originally integrated certain Nasdaq and Amex technology subsequent to the 1998 acquisition of Amex by the NASD. The total estimated cost of the separation had been established at a maximum of $29.0 million, and was to be shared evenly between Nasdaq and the NASD. In 2002 and 2001, Nasdaq accrued $5.3 million and $9.2 million, respectively under this commitment fulfilling its commitment. As of December 31, 2002, $3.7 million has been paid to Amex.

The Board of Directors of Nasdaq have approved a capital contribution of up to $25.0 million to the NQLX joint venture. Nasdaq made a $2.0 million capital contribution in 2001. During 2002, Nasdaq made additional contributions to NQLX of $16.0 million. An additional $7.0 million is expected to be contributed in 2003, which will fulfill Nasdaq's Board's initial approval of $25.0 million.

Nasdaq entered into a six-year $600.0 million contract with WorldCom in 1997 to replace the data network that connected the Nasdaq market facilities to market participants. As part of that contract, Nasdaq provided a guaranteed revenue commitment to WorldCom of $300.0 million. Nasdaq was permitted to renegotiate the contract once the minimum guarantee was satisfied. In June 2002, an amendment to the original contract was negotiated with WorldCom once the minimum usage level of $300.0 million was achieved from the original contract. The amended contract supersedes the terms of the existing contract and is for $182.0 million over three years commencing in June 2002. The three-year contract includes fixed and variable cost components for two years and permits Nasdaq to terminate the contract in certain circumstances after the second year. Although WorldCom declared bankruptcy in July 2002, Nasdaq does not foresee any interruption in service under the contract.

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.

18. 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 charges include 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 composition of costs charged by NASDR to Nasdaq:

	December 31,		
(in thousands)	**2002**	**2001**	**2000**
Compensation	$ 24,418	$ 24,399	$ 20,283
Professional and contract services	24,038	32,691	34,761
Occupancy	3,202	3,280	2,749
Publications, supplies and postage	1,166	1,514	1,606
Computer operations and data communications	4,570	6,306	7,923
Depreciation	15,481	14,939	11,109
Travel, meetings and training	627	693	785
Other	3,206	—	634
Total	$ 76,708	$ 83,822	$ 79,850

On June 28, 2000, Nasdaq and NASDR signed a Regulatory Services Agreement pursuant to which NASDR or its subsidiaries would provide regulatory services to Nasdaq and its subsidiaries commencing upon the effectiveness of Exchange Registration. As a result, no services have been performed under this agreement. Pursuant to the terms of the Regulatory Services Agreement, the services provided will be of the same type and scope as are currently provided by NASDR to Nasdaq under the Delegation Plan for a term of ten years. Each regulatory 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. In 2002, Nasdaq paid NASDR $76.7 million for regulatory services provided pursuant to the Delegation Plan.

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,

(in thousands)	2002	2001	2000
Compensation	$ 1,689	$ 16,436	$ 25,899
Professional and contract services	1,236	4,585	9,986
Occupancy	877	4,992	9,576
Publications, supplies and postage	147	1,337	1,544
Computer operations and data communications	251	191	1,500
Depreciation	344	2,483	2,894
Travel, meetings and training	113	573	1,504
Other	470	1,528	701
Total	$ 5,127	$ 32,125	$ 53,604

The NASD and Nasdaq entered into a Separation and Common Services Agreement, dated as of January 1, 2002 (the "New Separation Agreement"), which replaced an interim Separation and Common Services Agreement executed in 2000 (the "Interim Agreement"). The services to be provided to Nasdaq by the NASD under the New Separation Agreement are limited to certain finance, technology infrastructure, facilities sharing and legal services, which is substantially more limited than what were previously provided by the NASD under the Interim Agreement. Under the New Separation Agreement, Nasdaq pays to the NASD the costs of the services provided, including any incidental expenses associated with such services. Nasdaq anticipates that the annual costs for services under the New Separation Agreement will drop in future years as Nasdaq reviews the provision of these services and continues to internalize more of these services or seeks alternative third party providers.

Nasdaq Charge to Amex

Nasdaq incurs technology costs on behalf of Amex related to development of new Amex systems and enhancement of existing Amex systems. 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,		
(in thousands)	2002	2001	2000
Compensation	$ 509	$ 605	$ 345
Professional and contract services	6,011	13,195	4,389
Publications, supplies and postage	—	19	11
Other	347	329	187
Total	$ 6,867	$ 14,148	$ 4,932

Nasdaq has agreed to fund a portion of the necessary expenses related to the separation of software, hardware and data under a plan to transition technology applications and support from Nasdaq to Amex. The NASD originally integrated Nasdaq and Amex technology subsequent to the 1998 acquisition of Amex by the NASD. The total estimated cost of the separation had been established at a maximum of $29.0 million and was to be shared evenly between Nasdaq and the NASD. In the opinion of management, all methods of cost allocation described above are reasonable for the services rendered. (See Note 17, Commitment and Contingencies, for further information.)

19. Capital Stock

At December 31, 2002, 300,000,000 shares of Nasdaq's Common Stock were authorized, 130,518,921 shares were issued and 78,266,708 shares were outstanding. 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 of Directors 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 the Restructuring, the NASD sold approximately 10,806,494 warrants to purchase up to an aggregate of 43,225,976 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, are 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 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 any shares of Common Stock that it owns (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.

On March 8, 2002, Nasdaq completed the Repurchase of 33,768,895 shares of Nasdaq's Common Stock owned by the NASD, which represented all of the remaining outstanding shares of Common Stock owned by the NASD, except for the 43,225,976 shares of Common Stock underlying the warrants. Nasdaq purchased the Common Stock for approximately $305.2 million in aggregate cash consideration, 1,338,402 shares of Nasdaq's Series A Cumulative Preferred Stock (face and liquidation value of $100 per share, plus any accumulated unpaid dividends), and one share of Nasdaq's Series B Preferred Stock, (face and liquidation value of $1.00 per share). The NASD owns all of the outstanding shares of Series A and Series B Preferred Stock. All of the shares of Common Stock repurchased by Nasdaq from the NASD have been placed into Common Stock in treasury. As of December 31, 2002, there were 30,000,000 shares of preferred stock authorized, 1,338,402 and 1 share of Series A and Series B, respectively issued and outstanding.

Dividends payable to the NASD on the Series A Preferred Stock began accruing in March 2003. The Series A Preferred Stock carries a 7.6% dividend rate for the year commencing March 2003 and

10.6% in all years commencing after March 2003, payable at the discretion of Nasdaq's Board of Directors. Shares of Series A Preferred Stock do not have voting rights, except for the right as a class to elect two new directors to the Board of Directors anytime distributions on the Series A Preferred Stock are in arrears for four consecutive quarters and as otherwise required by Delaware law. Nasdaq may redeem the shares of Series A Preferred Stock at any time after Exchange Registration and is required to use the net proceeds from an initial public offering ("IPO"), and upon the occurrence of certain other events, to redeem all or a portion of the Series A Preferred Stock. The Series B Preferred Stock does not pay dividends. The NASD, as holder of the one share of the Series B Preferred Stock, will be entitled to cast the number of votes that, together with all other votes that the NASD is entitled to vote by virtue of ownership, proxies or voting trusts, enables the NASD to cast one vote more than one-half of all votes entitled to be cast by stockholders of Nasdaq. If Nasdaq obtains Exchange Registration, the share of Series B Preferred Stock will automatically lose its voting rights and will be redeemed by Nasdaq. In addition to the voting rights of the Common Stock and Series B Preferred Stock, the holders of the Subordinated Notes have certain voting rights as discussed in Note 11, Subordinated Notes.

On July 1, 2002, the Common Stock of Nasdaq began trading under the symbol "NDAQ" on the Over-the-Counter Bulletin Board. The limited trading of the security began upon the expiration of the contractual transfer restrictions imposed in connection with the sale of Common Stock by Nasdaq and the NASD in Phase I and Phase II of the Restructuring that occurred in June 2000 and January 2001, respectively.

In connection with the repurchase of ownership interest of a shareholder in Nasdaq Europe Planning in 2001, Nasdaq issued a warrant to purchase up to an aggregate of 479,648 shares of Common Stock. The warrant is exercisable in four annual tranches ranging from $13.00 to $16.00 per share beginning June 28, 2002. The issuance of the warrants has been recorded at fair value in stockholders' equity. As of December 31, 2002 the warrant is still outstanding and no tranches have been exercised.

On November 12, 2001, Nasdaq sold an aggregate amount of 535,000 shares of Common Stock to five members of the Nasdaq Board of Directors and 500,000 shares of Common Stock to Hellman & Friedman for an aggregate offering price of $10,608,750. The shares were sold in a private transaction at the current fair market value, pursuant to an exemption from registration contained in section 4(2) of the Securities Act.

In December 2001, the Board adopted a revised Non-Employee Directors Compensation Policy whereby beginning in 2002 all non-employee directors will be awarded 5,000 stock options per year with an exercise price at fair market value, which may be exercised for up to 10 years while serving on the Board of Directors (in general, three years from termination of service on the Board of Directors). On January 23, 2002, 65,000 stock options were awarded to all non-employee directors pursuant to the plan.

20. Earnings Per Common Share

Earnings per common share is computed in accordance with SFAS No. 128, "Earnings Per Share" ("SFAS 128"). Basic earnings per share excludes the dilutive effects of options, warrants and convertible securities, and is calculated by dividing net income available to common stock holders by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflects all potentially dilutive securities.

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

	December 31,		
(in thousands, except share and per share amounts)	2002	2001	2000
Numerator			
Net income	$ 43,128	$ 40,463	$ 23,306
Accretion of preferred stock dividends	(9,765)	—	—

Net income applicable to common stockholders for basic and diluted earnings per share	$ 33,363	$ 40,463	$ 23,306
Denominator			
Weighted-average common shares for basic earnings per share	83,650,478	116,458,902	112,090,493
Weighted-average effect of dilutive securities:			
Warrants	1,417	—	—
Employee stock options and awards	421,486	280,789	—
Denominator for diluted earnings per share	84,073,381	116,739,691	112,090,493
Basic and diluted earnings per share:			
Before cumulative effect of change in accounting principle	$ 0.40	$ 0.35	$ 1.11
Cumulative effect of change in accounting principle	—	—	(0.90)
Net income	$ 0.40	$ 0.35	$ 0.21

Options to purchase 10,917,403 shares of Common Stock, 12,000,000 shares underlying Subordinated Notes and 479,648 shares underlying warrants were outstanding during 2002. For the year ending December 31, 2002, 10,709,423 of the options outstanding and 119,912 of the shares underlying the warrants were included in the computation of diluted earnings per share, on a weighted average basis, as their inclusion was dilutive. The remaining options, remaining shares underlying the warrants issued by Nasdaq and the 12,000,000 shares underlying Subordinated Notes outstanding during 2002, were considered antidilutive and were properly excluded.

Options to purchase 8,569,258 shares of Common Stock, 12,000,000 shares underlying Subordinated Notes and 479,648 shares underlying warrants were outstanding during 2001, but were not included in the computation of earnings per share as their inclusion would be antidilutive. During 2000 there were no potentially dilutive common shares outstanding.

21. Subsequent Event

Nasdaq Deutschland

The recapitalization of Bremer Wertpapierbörse AG, a German stock exchange, rebranded as "Nasdaq Deutschland AG" and marketed under the Nasdaq brand, was finalized on January 21, 2003. This exchange, which will be subject to the German public law entity resulting from the merger of the Bremen Stock Exchange and the Berlin Stock Exchange, will initially be majority-owned by Nasdaq Europe. Trading in German and international blue chip and growth stocks began on March 21, 2003.

EXHIBIT INDEX

Exhibit Number	Description
3.1	Restated Certificate of Incorporation of The Nasdaq Stock Market, Inc.(+)
3.1.1	Certificate of Amendment of Restated Certificate of Incorporation of The Nasdaq Stock Market, Inc. (# #)
3.2	By-Laws of The Nasdaq Stock Market, Inc.(#)
3.2.1	First Amendment to By-Laws of The Nasdaq Stock Market, Inc.
3.3	Certificate of Designations of The Nasdaq Stock Market, Inc.'s Series A Cumulative Preferred Stock. (>)
3.4	Certificate of Designations of The Nasdaq Stock Market, Inc.'s Series B Preferred Stock. (>)
4.1	Form of Common Stock certificate.(+)
4.2	Form of Note for The Nasdaq Stock Market, Inc.'s 5.83% Senior Notes due May 9, 2007. (>>)
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.(+)
9.3	Second Amendment to the Voting Trust Agreement, dated as of July 18, 2002, among The Nasdaq Stock Market, Inc., the National Association of Securities Dealers, Inc., The Bank of New York and Mellon Investor Services, LLC. (++)
10.1	Network Service Agreement, dated November 19, 1997, between MCI Telecommunications Corporation and The Nasdaq Stock Market, Inc.*(+)
10.1.1	Amendment to EWN II Agreement, dated as of June 17, 2002, between WorldCom Communications, Inc. 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 January 1, 2002, 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.(+)
10.8.1	First Amendment to 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 by and between The Nasdaq Stock Market, Inc. and John L. Hilley, effective as of December 29, 2000.(+)

10.11.1	Amendment One to the Employment Agreement by and between The Nasdaq Stock Market, Inc. and John L. Hilley, effective as of February 1, 2002. (>)
10.12	Employment Agreement by and between The Nasdaq Stock Market, Inc. and Richard G. Ketchum, effective as of December 29, 2000.(+)
10.12.1	Amendment One to the Employment Agreement by and between The Nasdaq Stock Market, Inc. and Richard G. Ketchum, effective as of February 1, 2002. (>)
10.13	Employment Agreement by and between The Nasdaq Stock Market, Inc. and Hardwick Simmons, dated December 7, 2000, effective as of February 1, 2001.(+)
10.13.1	Amendment Number One to the Employment Agreement by and between The Nasdaq Stock Market, Inc., and Hardwick Simmons, effective as of February 1, 2001. (+)
10.13.2	Amendment Number Two to the Employment Agreement by and between The Nasdaq Stock Market, Inc., and Hardwick Simmons, effective as of February 1, 2002. (>)
10.14	Employment Agreement between The Nasdaq Stock Market, Inc. and Edward Knight, effective as of December 29, 2000.
10.14.1	First Amendment to Employment Agreement between The Nasdaq Stock Market, Inc. and Edward Knight, effective February 1, 2002.
10.15	Employment Letter from The Nasdaq Stock Market, Inc. to David Weild IV, dated March 8, 2001 as amended and restated March 21, 2002. (>)
10.16	Purchase and Sale Agreement, dated as of February 20, 2002, by and between The Nasdaq Stock Market, Inc., and the National Association of Securities Dealers, Inc. (>)
10.16.1	Investor Rights Agreement, dated as of February 20, 2002, between The Nasdaq Stock Market, Inc., and the National Association of Securities Dealers, Inc. (~)
10.17	Loan Agreement, dated December 28, 2001, by and between The Nasdaq Stock Market, Inc. and David P. Warren. (>)
10.18	Loan Agreement, dated December 30, 2001, by and between The Nasdaq Stock Market, Inc. and Steven Dean Furbush. (>)
10.19	Notes Purchase Agreement for 5.83% Senior Notes due May 9, 2002, dated as of May 9, 2002, among The Nasdaq Stock Market, Inc. and the purchasers named therein. (>>)
10.20	U.S. $150,000,000 364-Day Credit Agreement, dated as of August 29, 2002, among The Nasdaq Stock Market, Inc., Citibank, N.A., Credit Lyonnais New York Branch and certain banks named therein. (++)
10.21	Master Agreement, dated as of February 6, 2002, among The Nasdaq Stock Market, Inc., and The American Stock Exchange, LLC and The American Stock Exchange Corporation. * (++)
10.21.1	First Amendment to Master Agreement, dated as of December 9, 2002, among The Nasdaq Stock Market, Inc., and The American Stock Exchange, LLC and The American Stock Exchange Corporation. *
10.22	Technology Transition Agreement, dated as of February 6, 2002, among The Nasdaq Stock Market, Inc., The National Association of Securities Dealers, Inc. and The American Stock Exchange LLC. * (++)
11	Statement regarding computation of per share earnings (incorporated herein by reference to "Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K" of this Form 10-K).
12.1	Computation of Earnings to Fixed Charges.
21.1	List of all subsidiaries.

23.1	Consent of Ernst & Young LLP.
24.1	Powers of Attorney.
99.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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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.
(#)	Previously filed with The Nasdaq Stock Market, Inc.'s Amendment No. 5 to Registration Statement on Form 10 (file number 000-32651) filed on November 16, 2001.
(~)	Previously filed with The Nasdaq Stock Market, Inc.'s Current Report on Form 8-K filed on February 22, 2002.
(>)	Previously filed with The Nasdaq Stock Market, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2001, filed March 28, 2002.
(>>)	Previously filed with The Nasdaq Stock Market, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2002, filed on May 15, 2002.
(##)	Previously filed with The Nasdaq Stock Market, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2002, filed on August 14, 2002.
(++)	Previously filed with The Nasdaq Stock Market, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2002, filed on October 14, 2002.

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Exhibit 3.2.1

Amendment No. 1

By-Laws of The Nasdaq Stock Market, Inc.

Effective as of August 13, 2002, Section 5.4 of Article V of the By-Laws of The Nasdaq Stock Market Inc., was amended and restated in its entirety as follows:

* * *

ARTICLE V

NASDAQ LISTING AND HEARING REVIEW COUNCIL

* * *

Term of Office

Sec. 5.4 (a) Beginning in January 2003, except as otherwise provided in this Article, each Nasdaq Listing and Hearing Review Council member shall hold office for a term of three 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. Prior to January 2003, the term of office for each Nasdaq Listing and Hearing Review Council member shall be two years.

(b) The Nasdaq Listing and Hearing Review Council shall be divided into three classes. The term of office of those of the first class shall expire in January 2004, the term of office of those of the second class shall expire in January 2005, and the term of office of those of the third class shall expire in January 2006. Beginning in January 2003, members shall be appointed for a term of three years to replace those whose terms expire.

(c) 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.

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Exhibit 10.6

SEPARATION AND COMMON SERVICES AGREEMENT

between

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

and

THE NASDAQ STOCK MARKET, INC.

Dated as of January 1, 2002

TABLE OF EXHIBITS

THIS SEPARATION AND COMMON SERVICES AGREEMENT (*Agreement*), dated as of January 1, 2002 (***Effective Date***), is by and between the National Association of Securities Dealers, Inc., a Delaware nonprofit corporation with its principal place of business located at 1735 K Street, N.W., Washington, D.C. 20006 (***NASD***) and The Nasdaq Stock Market, Inc. (***Nasdaq***), a Delaware corporation with its principal place of business located at One Liberty Plaza, New York, New York.

W I T N E S S E T H:

WHEREAS, Nasdaq and NASD desire to procure certain services necessary for the efficient operation of their respective businesses;

WHEREAS, NASD and Nasdaq are each uniquely qualified to provide such services to the other; and

WHEREAS, each Party desires to provide and obtain from the other the services described in this Agreement on the terms and conditions set forth in this Agreement.

NOW, THEREFORE, for and in consideration of the agreements set forth below, Nasdaq and NASD hereby agree as follows:

SECTION 1 DEFINITIONS AND CONSTRUCTION.

1.01 Definitions. The following defined terms used throughout this Agreement will have the meanings specified below. Additional definitions of specific terms used in this Agreement may be found in subsequent Sections.

Affiliate will mean, as to any entity, any other entity that, directly or indirectly, Controls, is Controlled by or is under common Control with such entity, *provided that* Services need only be provided within the United States and only during normal Nasdaq hours of operation. A list of Affiliates of the Parties is attached hereto. Additional entities can be added with consent of the other Party, not to be unreasonably withheld.

Agreement will mean this Separation and Common Services Agreement by and between Nasdaq and NASD.

Change(s) will mean any change in the Services, the manner in which the Services are provided, the composition of the Services, the Fees, or relevant operating and security procedures.

Claim will mean any (1) written demand or (2) civil, criminal, administrative or investigative action or proceeding by a third Person against either Nasdaq or NASD, or an Indemnitee.

Control will mean, with respect to any entity, the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such entity, whether through the ownership of voting securities (or other ownership interest), by contract or otherwise.

Fees will mean the amounts payable by one Party to the other Party under the terms of this Agreement for: (i) for the Services provided; and (ii) any other amounts payable by one Party to the other Party pursuant to this Agreement.

Governmental Authority will mean any Federal, state, municipal, local, territorial, or other governmental department, regulatory authority, judicial or administrative body, whether domestic, foreign or international.

Information will mean NASD Information and Nasdaq Information, collectively.

Intellectual Property shall means designs, processes, inventions, works, ideas, databases, information, documents, and other subject matter to the extent they are protected by Intellectual Property Rights.

Intellectual Property Rights shall mean registered and unregistered patents, patent applications, trade marks and service marks, copyrights, trade names, publicity rights, Software, data bases, trade secrets, proprietary information and all rights created under Laws that permits a person, independently of contract, to control or preclude another person's use on the basis of the rights holder's interest.

Interest will mean the prime commercial rate plus one percent per annum as announced from time to time by JP Morgan Chase & Co. at its principal office in the United States.

Law will mean any declaration, decree, directive, legislative enactment, order, ordinance, regulation, rule or other binding rule, interpretation, or restriction of or by any Governmental Authority.

Losses will mean any and all damages, fines, penalties, deficiencies, losses, liabilities (including settlements and judgments) and expenses (including interest, court costs, reasonable fees and expenses of attorneys, accountants and other experts and professionals or other reasonable fees and expenses of litigation or other proceedings or of any Claim, default or assessment).

NASD Information will mean all NASD and NASD Affiliates' data and information in the possession of NASD or Nasdaq whether prior to or during the course of performing this Agreement that was obtained or acquired from or on behalf of NASD or compiled, processed, or maintained by NASD. NASD Information includes, but is not limited to, operational, financial, legal, regulatory, health, pay, benefits, employment and other human resources data, as well as information relating NASD members (including registered representatives and associated persons) or regulatory transactions.

Nasdaq Information will mean all Nasdaq data and information in the possession of NASD whether prior to or during the course of performing this Agreement that was obtained or acquired from or on behalf of Nasdaq; compiled, processed, or maintained by NASD; or is information that was produced by the NASD in connection with its provision of Services to Nasdaq under the terms of this Agreement. Nasdaq Information includes financial, legal, health, pay, benefits, employment and other human resources data, as well as information relating to Nasdaq broker/dealers, members, associated persons, issuers, other market participants or their customers, or market transactions.

Parties will mean Nasdaq and NASD, collectively.

Party will mean either Nasdaq or NASD, as the case may be.

Person will mean an individual, corporation, partnership, proprietorship, Governmental Authority, or other legal entity.

Related Documentation will mean, with respect to Software all materials, documentation, specifications, technical manuals, user manuals, flow diagrams, file descriptions and other written information that describes the function and use of such Software.

Regulatory Services Agreement will mean the Regulatory Services Agreement between NASD Regulation, Inc. and The Nasdaq Stock Market, Inc. dated June 28, 2000, as amended.

Services will mean, collectively, the goods and services (including hardware, software, information and datafeeds) provided by one Party to the other pursuant to this Agreement, and any assistance provided to one Party by the other after the termination, cancellation, or expiration of this Agreement. Service will mean a particular service provided by one Party to the other pursuant to

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this Agreement, and any assistance provided to one Party by the other after the termination, cancellation, or expiration of this Agreement. Services to Nasdaq will include its Affiliates.

Software will mean the object code and, if expressly provided for in this Agreement, the source code versions of any applications programs, operating system software, computer software languages, utilities, other computer programs and Related Documentation, in whatever form or media, including the tangible media upon which such applications programs, operating system software, computer software languages, utilities, other computer programs and Related Documentation are recorded or printed, together with all corrections, improvements, updates, upgrades, versions and releases thereof.

Term will mean the Initial Term and any Renewal Term or continuation of this Agreement pursuant to Section 2 herein.

1.02 Incorporation and References. In this Agreement and the Exhibits to this Agreement:

(1) the Exhibits to this Agreement are hereby incorporated into and deemed part of this Agreement and all references to this Agreement will include the Exhibits to this Agreement;

(2) references to an Exhibit, Section or Article will be to such Exhibit to, or Section or Article of this Agreement unless otherwise provided;

(3) references to days will mean calendar days unless otherwise provided;

(4) references to any Law will mean references to such Law in changed or supplemented form or to a newly adopted Law replacing a previous Law; and

(5) references to and mentions of the word "including" or the phrase "e.g." will mean "including, without limitation."

1.03 Headings. The Article and Section headings, Table of Contents and Table of Exhibits are for reference and convenience only and will not be considered in the interpretation of this Agreement.

1.04 Interpretation of Documents. Except as otherwise expressly agreed between the parties, in the event of a conflict between the provisions in one of the following documents and another, the provisions will prevail in this order: (1) the particular Statements of Work, Ordering Document, Exhibit, or amendments or schedules to a Service Level Agreement ("SLA") for the affected Service, in reverse chronological order; (2) amendments to the affected SLA, in reverse chronological order; (3) the SLA; (4) amendments to this Agreement, in reverse chronological order; then (4) this Agreement.

SECTION 2 TERM.

2.01 Initial Term. The initial term of this Agreement will commence on the Effective Date and expire on December 31, 2002 (***Initial Term***) unless this Agreement is cancelled or terminated by the Parties prior to that date in accordance with the terms set forth in this Agreement.

2.02 Individual Services. A description of each of the Services that a Party will provide to the other, the cost of that Service, and the period for the provision of that Service is set forth in a Service Level Agreement (***SLA***), which when signed by both Parties will be considered a part of this Agreement. Certain SLAs may contain a list of specific dependencies that the Parties agree could cause Nasdaq to be unable to terminate Services under that SLA by the end of the Initial Term, in which case that SLA will continue in accordance with the Term provision stated in that SLA; the Fees for Services during any such extension will be negotiated between the Parties or in the absence of agreement, the then existing price. In any event, for any Services, Nasdaq has the option to extend particular Services it desires for up to one ninety (90) day extension period after the end of the Initial

Term (or the extended Term stated in a particular SLA). The following is a list of the SLAs that will be executed in the performance of this Agreement:

Legal Services;

Application Provisioning Services;

Finance Services;

Procurement Services;

GlobalNet;

Affinity Marketing;

and

Telecommunications Services.

The Parties may mutually agree to amend the terms of any or all of the SLAs.

2.03 Renewal. This Agreement will continue after the Initial Term until each Service Level Agreement (SLA) between the Parties has terminated or been cancelled. The Parties may mutually agree to renew this Agreement or any SLA at any time prior to the expiration of the Initial Term or the SLA's stated term.

SECTION 3 SERVICES.

3.01 Services. Commencing as of the Effective Date, the Parties will each provide to the other and its Affiliates and receive from the other Party, except as otherwise set forth:

(1) Services on a non-exclusive basis;

(2) administrative functions reasonably related and necessary for a Party's performance in connection with the foregoing; and

(3) any services or responsibilities not specifically described in this Agreement that are mutually agreed upon by the Parties.

The Parties acknowledge and agree that the terms and conditions of: (i) Nasdaq's assignment of the Trade Reporting and Compliance Engine (TRACE) to NASD and Nasdaq's operation of such system; (ii) Nasdaq's provision of systems and services directly (or indirectly) to Amex; (iii) a party's use of office space within a facility of the other covered by the "Shared Facilities Agreement" or a sub-lease; (iv) Nasdaq's provision of systems or services for the Alternative Display Facility; (v) any other separately controlled or contracted for services (i.e. Pink Sheets) and (vi) regulatory services pursuant to the Regulatory Services Agreement, will each be the subject of a separate agreement and are not set forth in this Agreement; this Agreement is not to be construed to be in conflict with any of these agreements; in the event of a conflict between the terms of one of these agreements and this Agreement, the terms of the other agreement will control. Nothing in this Agreement is meant to alter, diminish or in any way affect any of the terms and conditions of the Regulatory Services Agreement (or any of the other above listed agreements), as between NASDR and Nasdaq. Any Services may be provided through an independent consultant reasonably acceptable to the receiving Party (e.g., Amex would generally not be an acceptable Person) and the Party that is providing Services through an independent consultant will be responsible for such independent contractor as if such contractor was the providing Party's employee.

3.02 Requests for Change Requests. If a Party requests a change in a Service, an SLA, or this Agreement (***Change Request***), it shall provide notice of such Change Request to the other Party. Each

Change Request will include the requesting Party's estimate (up or down) in the cost, resources, schedules, developmental, operational, and other impacts that the requested change will entail (understanding that if an initial Change Request is made by the receiving Party, it may not be in a position to estimate one or more of the above elements). The Parties shall work, as reasonably requested by a Party, to exchange such information as is reasonably necessary for Parties to evaluate the need and impact of the requested change. The other Party will then review the Change Request and provide the requesting Party with its written version of a Change Request including the cost, resources, schedules, developmental, operational, and other resource impacts that the requested change will entail. Except as required early by the applicable SLA, the response shall be delivered within fourteen (14) days of its receipt of the Change Request, in the case of Applications Provisioning or GlobalNet related services, thirty (30) days. If the Parties agree upon a Change Request, then such Change Request will be implemented and any changes shall be binding on the Parties and any applicable SLA will be automatically amended to incorporate such change. A Change Request may not become effective, *however*, unless signed by both Parties. The parties agree that any Change Request to the GlobalNet and Applications Provisioning SLAs shall be submitted to the respective Change Control Board and the Parties shall follow the procedures outlined in the Additional Legal Terms. If the Parties are unable to agree upon a Change Request for any other SLA, the issue will be escalated to the designated Program Executives for resolution.

3.03 Approvals. Each Party warrants that it will, at its sole expense, comply with all applicable Laws, regulations, and requirements, and that its performance of the Agreement will not cause it, the receiving Party, an Indemnitee, or the subject of the Service to violate any state, federal or local Laws. Each Party will at all times exercise due care, prudence and diligence in carrying out its duties and responsibilities under this Agreement. Each Party will obtain and maintain all necessary licenses, permits or government approvals as may be necessary for it to perform this Agreement. Each Party further warrants that it will cooperate with and assist the other Party in obtaining and maintaining any such approvals as applicable, to the extent reasonably possible, if: (i) requested to do so by the other Party in writing; and (ii) without limiting the requesting Party's obligations under this Agreement. Nasdaq, in a timely manner, will provide to NASD all information necessary to complete required government filings and reports pursuant to their joint and several Agreements with the City of New York, and the State of New York and NASD's Agreement with the State of Maryland. This obligation survives the termination of this Agreement.

3.04 Third Person Agreements. Both Parties understand that the provision of Services by the other Party may involve obtaining goods and services from third Persons (other than either Party's Affiliates). Unless otherwise noted in the SLA, the providing Party will be responsible for contracting directly with such third Person for such goods and services as are needed for it to provide the Services. If the SLA requires the receiving Party to directly contract, the Party providing such Services will provide such assistance to the Party receiving the Services as such Party may reasonably require to enable it to contract directly with such third Persons.

Section 4 SHARING OF INCIDENTAL SPACE.

4.01 Use of Facilities. Either Party may allow the other Party to use a portion of any of its physical facilities to further the performance of this Agreement. The use of such facility by another Party does not constitute a leasehold interest in favor of such Party. Each Party will furnish such physical facilities with appropriate work space, telephone, fax services, and related office equipment for use of the other Party as they may agree to further the performance of this Agreement.

4.02 Use of Other Resources. The Parties may also agree to provide any of their respective resources to the other Party on a temporary basis, upon such terms and conditions as the Parties may mutually agree upon, to further the performance of this Agreement.

SECTION 5 SERVICE LEVELS.

5.01 __Performance Standards__. Each Party will ensure that the Services that it provides under the terms of this Agreement are of high quality and provided in a professional manner. Each Party will make a good faith effort to provide its Services in a manner that is as cost effective and as efficient as possible. The standards for the performance of the Services that were in effect upon the Effective Date of this Agreement will remain in full force and effect until such time as the Parties may mutually agree upon appropriate new criteria to replace them. The Parties will amend the SLA that governs the provision of such Services to incorporate these new standards.

5.02 __Third Person Services__. Where Services are passed through from a third Person provider (through a legal agreement with the providing Party and the third Person) to the receiving Party, where the providing Party does not significantly alter such Services on its own as part of the provision of the Services, the following terms apply: (1) The providing Party represents and warrants that it has the right, title, or interest to permit the Services to be provided to the receiving Party; (2) the terms and conditions (including the level of Service, responsive times for problems, and penalties for non-performance) for the third Person Service will be that found in the underlying contract between the providing Party and the third Person; (3) the providing Party will not agree to or seek modifications of the third Person agreement in a way that impacts any Service received by the receiving Party, without first notifying the receiving Party; (4) the providing Party shall not waive or otherwise suffer breaches by the third Person of any Service received by the receiving Party without first notifying the receiving Party; and (5) the providing Party will undertake all commercially reasonable efforts to: (i) ensure that there are no disruptions or failures to meet service levels or other obligations in the Services that are furnished to the receiving Party; (ii) report and resolve any problems or Disputes that arise in connection with the third Person's provision of such Services; and (iii) facilitate such requests for Services or requests for changes in the Services that it receives from the third Person. The providing Party will act for the receiving Party with no less than the same level of personnel, effort, and priority that the providing Party would devote to its own similar Services or problems. If after exercising all reasonable commercial efforts, the problem, Dispute, or request is not resolved to the satisfaction of the receiving Party, the receiving Party shall: accept the terms and conditions as presented; terminate the applicable Service without penalty; be given the right to try to negotiate with the supplier, or supply its own alternative.

SECTION 6 SERVICE LOCATIONS.

6.01 __Service Locations__. Any Party providing Services to the other Party will provide the other Party with such reasonable prior Notice of its intent to change the location from which it provides such Services as the other Party may reasonably require in order to avoid the disruption of its normal business operations.

6.02 __Data Security__. NASD will continue to enforce NASD information security policies and standards (as of the Effective Date), and maintain applicable reasonable safeguards against the destruction, loss or alteration of Nasdaq Information ("*Data Safeguards*"). In the event NASD discovers or is notified of a breach or potential breach of security relating to Nasdaq Information, NASD will immediately: (i) Notify the Nasdaq Information Security Officer of such breach or potential breach; and (ii) if the applicable Nasdaq Information was in the possession of NASD at the time of such breach or potential breach, NASD will: (a) investigate and remediate the effects of the breach or potential breach; and (b) provide Nasdaq with reasonable assurances that such breach or potential breach will not recur.

__SECTION 7 PERSONNEL__.

7.01 __Conduct of Personnel__. Each Party warrants that while on-site at a facility of the other Party, its personnel will comply with the sections of the other Party's Employee Handbook related to Equal Employment Opportunities, Sexual Harassment, and Substance Abuse Policies as if its personnel were employees of such Party. Each Party will provide the other Party with a current copy of its Employee Handbook within ten (10) days of the Effective Date of this Agreement. Each Party will also promptly provide the other Party with copies of any updates to its Employee Handbook.

7.02 __Security__. Each Party will cause its personnel to comply with the security regulations and oral security instructions at each of the other Party's facilities that they visit.

7.03 __Personnel Status; Taxes__. The providing Party represents and warrants that neither it nor the providing Party's Persons shall be an employee of the receiving Party for any purpose whatsoever. The providing Party shall be responsible for the payment of all unemployment, social security and other payroll taxes of all Persons who are engaged in the performance of the Services. If, at any time, any liability is asserted against the receiving Party for unemployment, social security or any other payroll tax related to, the providing Party or the providing Party's Persons, then the providing Party shall indemnify and hold harmless the receiving Party and its Indemnitees from any such liability, including, without limitation, any such taxes, any interest or penalties related thereto, and reasonable attorney's fees and costs. Further, the providing Party shall cause Persons to waive any and all Claims, and to release the receiving Party from any and all liability, arising from or relating to any assertion that such Persons were employees of the receiving Party by virtue of this Agreement and the Services performed hereunder, including, without limitation, any Claims of entitlement to the benefits accorded employees by the receiving Party.

7.04 __Removal of Personnel__. If either Party notifies the other Party that it has a bona fide business reason for removal of personnel or an entity provided by the other Party, the notified Party will promptly (a) investigate the matter and take appropriate action which may include: (i) removing the applicable person or entity from the provision of the services related to that Party's performance of this Agreement and providing the notifying Party with prompt written Notice of such removal; and (ii) replacing the applicable person or entity with a similarly qualified one; or (b) take such other action as is appropriate to prevent a recurrence. For alleged breaches of security and violations of confidentiality while a Party's personnel is on the other Party's site or in instances where a Party reasonably believes that the other Party's personnel or entity poses a risk to the operation of its business while on that Party's site, the Party may remove the personnel or entity in question, *provided, that*, it first notifies the other Party of its concerns if it is reasonably feasible for it to do so. The Party whose personnel or entity were removed will promptly replace such personnel at its own cost.

7.05 __Improper Conduct__. In the event that either Party suspects that any personnel or entity used by the other Party who has been involved in the performance of this Agreement has been involved in improper, illegal or unethical use of any data or information gained from such performance or received as part of the Services, then it may notify the other Party and request that it conduct an investigation of such individual or entity. The Party requesting such investigation will provide such assistance to the other Party in such Party's conduct of an investigation as that Party may reasonably request. The other Party shall promptly investigate the matter and take all appropriate actions to cure the matter and prevent a recurrence.

__SECTION 8 MANAGEMENT AND CONTROL__.

8.01 __Program Manager__. Each Party will appoint a manager who will act as its liaison to the other Party (***Program Manager***). This individual will: (i) serve as the Party's primary contact for the receipt of relevant information about the performance of this Agreement, for presentation and resolution of any Dispute, issue, or problem, and for the creation and the Party's commitment to action items to resolve

Disputes, issues, or problems; (ii) attend twice monthly (or such interval as the Program Manager's agree) meetings with the other Party's Program Manager; (iii) attend ad hoc meetings within five (5) business days of a demand for one from the other Party's Program Manager; and (iv) report monthly to his or her Party's Program Executive on any material issues related to the performance of the Agreement that may have arisen between the Parties. The Parties may change their Program Manager at any time by providing the other Party with prior written Notice of such change.

8.02 __Program Executives__. Each Party will appoint an Executive Vice President or Senior Officer level manager who is not also the Program Manager (***Program Executive***) who will serve as the primary representative of that Party under this Agreement. Each Party may, in its sole discretion, change its Program Executive at any time upon prior Notice to the other Party. Each Program Executive will: (i) have overall responsibility for managing and coordinating the daily performance of his or her Party's obligations under this Agreement; and (ii) be authorized to act for and on behalf of his or her Party with respect to all matters relating to this Agreement. Notwithstanding the foregoing, a Program Executive may, upon Notice to the other Party, delegate such of his or her responsibilities to other employees of his or her Party as the Program Executive may deem appropriate.

8.03 __Management Reports__. The Party that provides Services will provide the receiving Party with such documentation and written reports as the Parties may mutually agree upon in order to efficiently monitor the providing Party's provision of the Services, but in no case less than quarterly.

__SECTION 9 OWNERSHIP__.

9.01.1 __Proprietary Rights__. The following provisions set forth the rights and obligations of the Parties with respect to Intellectual Property Rights. Exhibit A sets forth the Intellectual Property Rights for the Intellectual Property listed there. Except as set forth in Exhibit A, the following sections apply:

(a) ***__Existing Intellectual Property__.*** Except as may be explicitly provided in Exhibit A, each Party will retain all Intellectual Property Rights in any software, goods, ideas, processes, inventions, designs, concepts, know-how, development tools, works, marks, techniques or any goods, services, material, or information subject to Intellectual Property Rights that it owned or developed prior to the date of this Agreement, or acquired or developed after the date of this Agreement without reference to or use of the Intellectual Property of the other Party. All software that is licensed by a Party from a third Person vendor will be and remain the property of such vendor.

(b) ***__New Intellectual Property__.*** All Intellectual Property created under the terms of this Agreement is known as "New Intellectual Property". New Intellectual Property created solely for the receiving Party shall be owned by the receiving Party. New Intellectual Property created for the use of both Parties shall be jointly owned by the Parties, and either Party may utilize the New Intellectual Property Rights in any manner it sees fit (subject to duties related to Confidential Information) without seeking consent from the other Party, and without accounting to the other Party for revenues. An owning Party shall have right, title and interest, including worldwide Intellectual Property Rights, in and to the New Intellectual Property and all copies made from it. The other Party hereby irrevocably assigns, transfers and conveys to the owning Party without further consideration such right, title and interest in and to such New Intellectual Property and warrants that the assignment, transfer, or conveyance includes any third Person intellectual property, where the creating party may legally assign, transfer or convey such third Person intellectual property. The other Party acknowledges that the owning Party and the successors and permitted assigns of the owning Party shall have the right to obtain and hold in their own names the aforementioned Intellectual Property Rights in and to the New Intellectual Property. The other Party agrees, at the owning Party's reasonable cost, to execute any documents or take any other actions as may reasonably be necessary, or as the owning Party may request, to perfect the owning Party's ownership of any such New Intellectual Property. The owning Party hereby grants to the

providing Party, solely to provide the Services, a non-exclusive, non-transferable, limited right to have access to and use the New Intellectual Property. The creating Party hereby grants to the receiving Party, during the Term and the Termination Assistance Period, a fully paid-up, non-exclusive, limited right to have access to and use the creating and any third Person software and tools, solely to the extent that such access and use is reasonably required in order for the receiving Party to receive and use the Services during and after the Term where the creating party may legally assign, transfer or convey such third Person intellectual property. Upon the receiving Party's request, the creating Party shall provide the receiving Party with a list of all the creating Party or third Person Intellectual Property (including software and tools) being used to provide the Services as of the date of such request or embedded in the New Intellectual Property. Except as expressly granted herein, the creating Party shall retain all right, title and interest in and to the creating Party's Software and Tools.

9.01.2 __Licenses__. No licenses will be deemed to have been granted by either Party to any of the Intellectual Property, except as otherwise expressly provided in this Agreement. The provisions of this Section will survive the cancellation, termination, or expiration of this Agreement and each SLA.

9.02 __Intellectual Property Rights in Information__. Except as may be provided in Exhibit A or elsewhere in this Agreement, this Agreement in not meant to modify the Intellectual Property Rights of either party in the Information. Nasdaq shall at any time have access to (including obtaining a copy of) Nasdaq Information in the possession of NASD or its Affiliates or any third Person. NASD shall at any time have access to (including obtaining a copy of) NASD Information in the possession of Nasdaq or its Affiliates or any third Person. NASD (and any subcontractors authorized in an SLA, ordering or other written document, to provide Services to Nasdaq in accordance with this Agreement) is hereby authorized to have access to and to make use of the Nasdaq Information as is appropriate for the performance by NASD of its obligations under each SLA. NASD will not use the Nasdaq Information for any purpose other than providing the Services or as defined in Section 15.9 and 15.10. NASD agrees that misuse of any Nasdaq Information may be subject to violation of the U.S. Insider Trading Act, or other applicable Law. Nasdaq will not use NASD Information for any purpose other than as provided in Sections 15.9 and 15.10, herein.

9.03 Non-Use of Names and Marks. Except as otherwise set forth herein, each Party will retain all right, title and interest in and to its trademarks and service marks, registered or unregistered, (collectively, the ***Marks***). Neither Party may use any trademark, service mark, copyright, patent or other Intellectual Property of the other Party or the other Party's subsidiaries or affiliates, registered or unregistered, without the prior written consent of the other Party. Nasdaq further agrees that it will not use the names "National Association of Securities Dealers, Inc.", "NASD", "NASD Regulation, Inc.", "NASDR", "American Stock Exchange" or "Amex" in any advertising or promotional media of Nasdaq without the prior written consent of NASD. NASD also agrees that it will not use the names "The Nasdaq Stock Market, Inc.", "Nasdaq", or any mark that uses "Nasdaq" or any Nasdaq owned graphical mark as a part, in any advertising or promotional media of the NASD without the prior written consent of Nasdaq.

SECTION 10. [Intentionally Omitted.]

SECTION 11 CONTINUED PROVISION OF SERVICES.

11.01 Force Majeure. Neither Party will be liable for delay or failure in performance of any of the acts required by this Agreement when such delay or failure arises from circumstances found to be beyond its reasonable control including acts of God. The Party prevented from performing its obligations under this Agreement by such force majeure event will be excused from such performance for as long as such: (i) force majeure event continues; and (ii) such Party continues to use its best

efforts to recommence performance of its obligations under this Agreement whenever and to whatever extent possible without delay, including through the use of alternate sources, workaround plans or other means. If the period of non-performance exceeds ten (10) calendar days, then the Party to whom the performance is due will have the right to cancel any affected SLAs upon five (5) calendar days prior written Notice with the right to cure within the stated period.

11.02 No Payment for Unperformed Services. If a Party fails to provide the Services in accordance with this Agreement due to the occurrence of a force majeure event, the Fees will be adjusted in a manner such that the other Party is not responsible for the payment of any Fees for Services that a Party failed to provide.

SECTION 12 PAYMENTS AND INVOICING.

12.01 Payment Procedures. Each Party will pay all invoices not in dispute within thirty (30) days of its receipt of such invoice. The format of invoices will be mutually agreed upon by the Parties. Each Party will review each invoice that it receives upon receipt to verify that it contains the information required by the Parties and is consistent with the pricing structures as set forth in this Agreement. Each Party will review the amount that it invoiced the other Party for the provision of Services at the end of each month and will modify the amount that it bills the other Party for the next month to reflect any adjustments that are necessary to reconcile the amount of Services that it actually provided to the other Party during the preceding month. The providing Party may not invoice more than sixty (60) days after the end of the month for Services provided in that month; the receiving Party may not start a Dispute over an invoice more than sixty (60) days after its receipt (for Services rendered before the date of the signing of an SLA, the sixty (60) days for starting a Dispute runs from the SLA signature date). Each Party's Program Manager will attempt to resolve such disagreements through the procedures set forth in Section 17 of this Agreement. The Parties will then resolve any remaining disagreements through the procedures set forth in Section 17 of this Agreement. All invoices may be paid by electronic funds transfer.

12.02 Overdue Invoices. Each Party may charge the other Party Interest on any undisputed invoices that the other Party failed to pay within forty-five (45) days of its receipt of such invoice. This Interest may be assessed monthly.

12.03 Cost Reduction Strategies. For those Services that are governed by SLAs that extend beyond December 31, 2002, the Parties will review the pricing structures and methodologies for each Service at least annually. The Parties will also review the feasibility of establishing specific cost reduction and limitation objectives at least annually.

12.04 Most Favored Nation Status. The prices charged by a Party for the provision of Services during the Term of the Agreement will not be less favorable in any material respect, than the fees or prices charged to any other customer entering into an agreement with the Party with respect to the Services. Should a Party enter into an agreement with another customer (other than an Affiliate or joint venturer) providing more favorable prices for some or all of the Services, then this Agreement will be automatically amended to provide the same more favorable prices to the other Party. The Parties acknowledge and agree that each Party must be granted reasonable access to relevant cost information of the other Party in accordance with the provisions herein in order to reasonably enable the Party that will be paying the relevant Services to evaluate the basis for the suggested pricing and comparability of such Services.

12.05 1735 K Payment. After all Nasdaq personnel has vacated the premises at 1735 K Street (except for any personnel permitted by NASD to remain on the premises), NASD shall, within 30 days, pay Nasdaq $500,000.

SECTION 13 TAXES.

13.01 Generally. The Fees paid for Services will be inclusive of any applicable sales, use, gross receipts, excise, or other taxes, or fees, charges, duties, or assessments of Governmental Authorities attributable to periods on or after the Effective Date based upon or measured by the cost of the Services or in providing the Services. Neither Party, *however,* will be responsible for the payment of any tax assessed on the personal property or net income of the other Party. Except as otherwise set forth herein, all other taxes (including any non-United States tax) are the full liability of the party receiving the Services, and the Party receiving the Services will pay to the other Party, or reimburse the party providing the Services for the payment of, or pay directly to the taxing authority, any such taxes however designated, imposed or levied. To the extent that any sales, use, gross receipts, excise, value-added or services tax is required by Law to be separately identified in billings, the Party issuing the invoice will separately identify such tax.

13.02 Taxes, Assessments and Real Property-related Levies. Nasdaq and NASD will each bear sole responsibility for all taxes, assessments and other real property-related levies on its owned or leased real property, unless a Party leases or buys real property at the request of the other Party, in which event, it shall be subject to a separate agreement between the Parties.

SECTION 14 AUDITS.

Without need for prior Notice where a facility of the receiving Party is involved, and upon reasonable prior Notice otherwise, the receiving Party will be provided with reasonable access to any facility, Services, or operations, and any relevant books, documentation, and records to enable it to conduct audits of the Services, invoices, and other matters relevant to this Agreement and each SLA; including (i) verifying the accuracy of charges, and (ii) verifying that the Services are being provided in accordance with this Agreement, applicable Law, and the applicable SLA, including any applicable performance criteria, standards and milestones set forth in such SLA or this Agreement. The providing Party will cooperate in any audit, will ensure that space and information reasonably required to conduct the audit is available on a timely basis and will assist the designated employees of the receiving Party as reasonably necessary. The providing Party shall ensure that complete and accurate records in connection with this Agreement are created and maintained until the period when no claim may be brought under the terms of this Agreement. All information learned or exchanged in connection with the conduct of an audit, as well as the results of any audit, is Confidential Information. In the event that such audits reveal that amounts invoiced to the Party conducting such audit exceeded the correct amount that should have been invoiced to it (the Party conducting the audit shall have the burden of producing evidence of the overpayment) by five percent (5%) or more, the Party being audited will reimburse the auditing Party for the reasonable cost of such review and audit and the amount of such overpayment, if any.

SECTION 15 CONFIDENTIALITY.

15.01 Definition. The Parties acknowledge and agree that they may each be given access to, or acquire confidential or proprietary information of or by the other Party during their performance of this Agreement (***Confidential Information***). Confidential Information includes but is not limited to:

- The pricing terms and conditions of this Agreement
- Nasdaq Information
- Information learned or exchanged in connection with the conduct of an audit, as well as the results of any audit (Section 14).
- The decision of arbitrator(s) (Section 17).

- Notes, documents, summaries or reports which either Party prepares from Confidential Information to the extent such materials specifically refer or relate to Confidential Information are themselves Confidential Information.
- Personally Identifiable Information ("PII") (i.e. employee data, issuer data or customer data, including billing data).

15.02 Duty. Except as may be explicitly provided in Exhibit A, each Party will use such Confidential Information only in fulfillment of its obligations under this Agreement; will hold such Confidential Information in confidence; and will not disclose, copy or publish any such Confidential Information without the prior written approval of the other Party unless otherwise provided in this Agreement. The obligations imposed on the Parties by this section will survive for a period of five (5) years after the termination, cancellation, or expiration of this Agreement.

15.03 Standard of Care. The Parties acknowledge the sensitive and secret nature of the Confidential Information they will have access to and agree that they will treat such Confidential Information as strictly confidential and will exercise the same degree of care in the protection of the Confidential Information as they each exercise with respect to their own proprietary property and trade secrets, but in no event less than a reasonable degree of care given the nature of the Confidential Information.

15.04 Permitted Disclosures. The Party receiving Confidential Information (***Receiving Party***) will be permitted to disclose relevant aspects of the disclosing Party's (***Disclosing Party***) Confidential Information to its officers, directors, agents, professional advisors, subcontractors and employees who are under a legal obligation or agreement to maintain the confidentiality of information designated as Confidential Information by the Party. Such disclosure will only be permitted to the extent that it is reasonably necessary for the performance of the Receiving Party's duties and obligations or the determination, preservation or exercise of the Receiving Party's rights and remedies under this Agreement; *provided that*, the Receiving Party will undertake all reasonable measures to ensure that Confidential Information of the Disclosing Party is not disclosed or duplicated in contravention of the provisions of this Agreement by such officers, directors, agents, professional advisors, subcontractors and employees. The implementation of such measures shall not diminish the Receiving Party's responsibility.

15.05 Compliance with Legal Process. The obligations in this Section will not restrict any disclosure required pursuant to any Law (provided that the Receiving Party gives prompt Notice to the Disclosing Party of such). In the event the Receiving Party receives a subpoena or other validly issued administrative or judicial process requesting the Disclosing Party's Confidential Information, the Receiving Party will provide prompt actual Notice of receipt and a copy of the subpoena or other document(s) to the Disclosing Party. The Disclosing Party will have the opportunity to intervene in the proceeding before any deadline for complying with the subpoena or other process. The Receiving Party will not comply with such subpoena or other process until the earlier to occur of receiving written Notification from the Disclosing Party that it may proceed, receiving an order from a court or other administrative or judicial body not to disclose, or the deadline for complying with any portion or all of the process. The Parties (including their Affiliates) may disclose information to the extent revealed to a government agency with regulatory or oversight jurisdiction over the Party or its Affiliate, or in the Party's or its Affiliate' regulatory responsibilities over members, associated persons, issuers, or other market participants or transactions under the Exchange Act of 1934 or other applicable Law.

15.06 Exceptions. The obligation of non-disclosure shall not extend to: (1) information that is already in the possession of the Party and not under a duty of non-disclosure; (2) information that is revealed or generally known within the industry or to the public; or (3) information that is revealed to the Party by a third Person—unless the Party knows that such Person is under a duty of non-disclosure.

15.07 Unauthorized Acts. Without limiting either Party's rights in respect of a breach of this Article, the Receiving Party will:

(1) promptly Notify the Disclosing Party of any unauthorized possession, use or knowledge, or attempt thereof, of the Disclosing Party's Confidential Information by any person or entity that may become known to Receiving Party;

(2) promptly furnish to the Disclosing Party full details of the unauthorized possession, use or knowledge, or attempt thereof, and assist the Disclosing Party in investigating or preventing the recurrence of any unauthorized possession, use or knowledge, or attempt thereof, of the Disclosing Party's Confidential Information;

(3) cooperate with the Disclosing Party (at the Disclosing Party's expense) in any litigation and investigation against third Persons deemed necessary by the Disclosing Party to protect its proprietary rights (such cooperation will not require, nor shall be deemed to be, a violation of any legal privilege); and

(4) promptly use its commercially reasonable efforts (acknowledging that its previous efforts were inadequate) to prevent a recurrence of any such unauthorized possession, use or knowledge, or attempt thereof, of Confidential Information.

15.08 Copies of Information. NASD will, upon Nasdaq's reasonable request provide Nasdaq with (i) a copy of Nasdaq Information in NASD's possession.; and (ii) a copy or original of the Nasdaq Information (including email messages) as may be required to comply with Section 15.10 of this Agreement. Nasdaq will, upon NASD's request in accordance with Section 15.10 of this Agreement, provide NASD with a copy of NASD Information (which may include Nasdaq Information), in Nasdaq's possession.

15.09 Retention and Use of Confidential Information After Termination. Notes and other documents referencing or relating to the information, documents, data, records, documentation or other property supplied by the other Party may be made and kept by the Parties, but will continue to be governed by the Confidentiality provisions of this Agreement until they are destroyed. A Party shall also have the right to retain and use information of the other Party including Nasdaq Information, to comply with any government or regulatory requirements (including any SEC approved document retention plan); in legal actions; for contract obligations that may survive the SLA termination date; tax, insurance and insurance claims, and financial record keeping and audit purposes, but only for the period required by such, and may only use such information for the purposes required by such, and provided that prior to any disclosure of such information (unless subject to Section 15.05) the Party will Notify the other Party and permit an opportunity to intervene to protect its interests.

15.10 Disclosure and Use of Information. Each party agrees that access to, or use of, the other Party's Information or Confidential Information will be limited to compliance with any government or regulatory requirements (including any SEC approved document retention plan); legal actions; contract obligations; tax, insurance and insurance claims; legally required financial record keeping and audit purposes; and to facilitate corporate operations. The parties agree, however, that no use or access will be granted to the American Stock Exchange or to other third Persons (except as provided in this Agreement, for example for regulatory purposes or to sub-contractors who provide the Services).

15.11 Intellectual Property. All Intellectual Property Rights associated with the Confidential Information, including without limitation, patent, trademark, copyright, trade secret rights, and moral rights will remain in the Party, person, or entity owning the Confidential Information.

15.12 Costs. Each Party will bear any cost it incurs as a result of its compliance with this Section 15.

SECTION 16 REPRESENTATIONS AND WARRANTIES.

16.01 Each Party represents and warrants that:

(1) It is a corporation duly incorporated, validly existing and in good standing under the Laws of Delaware;

(2) It has all requisite corporate power and authority to execute, deliver and perform its obligations under this Agreement;

(3) the execution, delivery and performance of this Agreement (a) has been duly authorized and (b) will not conflict with, result in a breach of or constitute a default under any other agreement to which it is a party or by which it is bound;

(4) It is duly licensed, authorized or qualified to do business and is in good standing in every jurisdiction in which a license, authorization or qualification is required for the ownership or leasing of its assets or the transaction of business of the character transacted by it, except where the failure to be so licensed, authorized or qualified would not have a material adverse effect on its ability to fulfill its obligations under this Agreement;

(5) there is no outstanding litigation, arbitrated matter or other dispute to which it is a party which, if decided unfavorably to it, would reasonably be expected to have a material adverse effect on its ability to fulfill its obligations under this Agreement;

(6) it has the right, free and clear of any liens or encumbrances to grant the rights and deliver the its Services to the other Party and perform its obligations under this Agreement. Further, it warrants and represents that none of the its Services violate any patent, copyright, trade secret, trademark, trade dress, or other Intellectual Property Right of any third Person. It will defend the other Party and the other Party's Indemnitees against any and all third Person Claims relating to the violation of any patent, copyright, trade secret, trademark, trade dress, or other Intellectual Property Right related to the provision of its Services under this Agreement and agrees to hold harmless and indemnify the other Party and the other Party's Affiliates and their respective officers, directors, subcontractors, employees and agents ("*Indemnitees*"), against any and all Losses awarded or agreed to be paid such third Person. Notwithstanding anything otherwise set forth in this Agreement, if as a result of such third Person Claim, a Party can no longer provide its Services, then, notwithstanding anything otherwise set forth in this Agreement, it shall, at the receiving Party's option either replace such Service or be responsible to the other Party for the cost of such replacement. Indemnification will also extend to Claims against a Party or an Indemnitee as an aider, abetter or contributing infringer.

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(7) It shall comply in all material respects with all Laws applicable to it that are relevant to the provision of its Services, and, except as otherwise provided in this Agreement, will obtain all applicable permits and licenses required of it in connection with its obligations under this Agreement.

16.02 **DISCLAIMER. EXCEPT AS SPECIFIED HEREIN, NEITHER NASDAQ NOR NASD MAKES ANY OTHER WARRANTIES WITH RESPECT TO THE SERVICES PROVIDED UNDER THIS AGREEMENT AND EACH EXPLICITLY DISCLAIMS ALL OTHER WARRANTIES, EXPRESS OR IMPLIED, INCLUDING THE IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A SPECIFIC PURPOSE.**

SECTION 17 DISPUTE RESOLUTION.

17.01 Dispute Resolution. This Section governs any dispute, disagreement, claim or controversy between the parties arising out of or relating to this Agreement, its breach validity, enforceability, or the arbitration provisions (the ***Dispute***). All Disputes will be submitted to the following dispute resolution process:

17.02 Negotiation. In the event any Dispute arises out of or relates to this contract, or the breach thereof, the Parties to this Agreement shall use their best efforts to settle any Dispute through negotiation, as provided below. The Parties will adhere to the following procedures in conducting these negotiations:

17.02.1 Project Manager Negotiations. First, the Dispute will be considered by the Project Managers, if any, selected by each Party pursuant to Section 8.01 herein. These managers will meet and attempt to resolve the Dispute within ten (10) business days of their being Notified of such matter. Each Dispute where there is no meeting or that is not settled within such ten (10) day period can thereafter be referred by either Party to the Program Executives pursuant to the provisions of Section 17.02.2 herein.

17.02.2 Program Executive Negotiations. Second, the Dispute will be considered by the each Party's Program Executive who will meet in an attempt to resolve the Dispute within ten (10) business days of the completion of any Project Manager Negotiations. Each Dispute where there is no meeting or that is not settled within such ten (10) business day period can thereafter be referred by either Party to Binding Arbitration pursuant to the provisions of Section 17.03 herein.

17.03 Binding Arbitration. Absent settlement by negotiation (or voluntary mediation if agreed to by the Parties), the Parties agree that final, compulsory, binding arbitration will be the exclusive means of Dispute resolution. The Parties may not commence arbitration until they have followed the procedures set forth in Section 17.02. The Parties further agree that any arbitration shall be held in New York, New York, and will be administered by the AAA in accordance with its Commercial Arbitration Rules, and that judgment on the award of the arbitrator(s) may be rendered in any court having jurisdiction thereof. Unless otherwise agreed by the Parties, the arbitration shall be conducted using the following procedure:

(1) Either Party may serve upon the other a Notice specifying the nature of the Dispute, and demanding that the Dispute be submitted to arbitration. The Notice may be made at any time after the date of the last mediation session, if mediation was agreed to. The Parties will not file a Notice after the date where applicable statutes of limitations or laches would bar the institution of any proceedings. Each Party will use commercially reasonable efforts (and shall allow the other Party to join) any third Person that is indispensable to the arbitration. The arbitration shall proceed even if the third Person refuses jurisdiction.

(2) In any Dispute involving aggregate damages of up to $500,000 (exclusive of Interest), the Parties will attempt to agree on a single arbitrator within ten (10) days after receipt of service of

the Notice referenced in herein, or such longer period as the Parties may agree. Absent such agreement, the arbitrator will be selected by the AAA from its large and complex case pool. Any Dispute in excess of $500,000 shall be decided by three (3) arbitrators selected by the AAA from its large and complex case pool.

(3) The arbitrator(s) selected will have a background in, and knowledge of, the subject matter of the Dispute. If arbitrator(s) with such experience are not available, the arbitrator(s) will be selected by the AAA from available arbitrators on its retired federal judge's pool.

(4) All discovery shall be completed within such time period as the Parties may agree upon following the appointment of arbitrator(s). The arbitrators will rule on any discovery disputes consistent with the Parties' desire for an expedited arbitration, and their determination shall be conclusive.

(5) The arbitrator(s) shall render a written decision within 30 days of the end of the arbitration hearing. The decision or the arbitrator(s) shall be Confidential Information. This Agreement will not prohibit either Party from seeking judicial confirmation of the arbitrator(s)' award. A Party may file a written request for judicial confirmation of the arbitrator(s)' decision anytime after receipt of service of the award. Notice of filing shall comply with requirements set forth in the Federal Rules of Civil Procedure and the Federal Arbitration Act. Any challenge to, or appeal of, an arbitration decision or proceeding on grounds required by the Federal or an applicable New York Arbitration Act (other than entry or enforcement of an arbitration award/judgment) shall be commenced within ninety (90) days of the arbitration award and brought solely in the federal or local court(s) of and for the State of New York.

(6) The foregoing procedures shall not preclude either Party from (1) petitioning a regulatory body regarding a matter in question over which the regulatory body has administrative jurisdiction; or (2) pursuing injunctions before any administrative or judicial forum *provided* that all monetary and other relief is submitted for arbitration, unless that would be prohibited by Law. The Parties shall not submit claims for punitive damages, and do hereby waive any right to the same and the arbitrators shall not be authorized to award punitive damages.

17.04 Continuity of Services. Each Party acknowledges that the timely and complete performance of its respective obligations pursuant to this Agreement is critical to the business and operations of the other Party. Accordingly, in the event of a Dispute, the Parties will continue to so perform their respective obligations under this Agreement during the resolution of such Dispute. Nothing in this Section will interfere with a Party's right to cancel an applicable SLA for breach of a matter not in Dispute or upon the stated expiration date of the applicable SLA.

SECTION 18 TERMINATION.

18.01 Cancellation for Breach. Either Party may cancel this Agreement and/or any affected SLA due to a material breach by the other Party. The Party aggrieved by the breach will give written Notice to the other Party that this Agreement will be cancelled not earlier than thirty (30) calendar days from its receipt of such Notice, and such Notice will state with specificity the grounds for cancellation. If the breach is curable, without adversely affecting the performance of the affected SLA and this Agreement, the Party in breach will have the right to cure such breach, at its own expense, prior to the date stated for cancellation.

18.02 Bankruptcy or Insolvency. A Party may elect to immediately cancel this Agreement upon Notice, if a petition in bankruptcy has been filed by, or against, the other Party (and such involuntary petition is not dismissed with 60 days) or the other Party has made an assignment for the benefit of creditors, or a receiver has been appointed for the other Party or any substantial portion of other

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Party's property, or the other Party or its officers or directors takes action approving or makes an application for any of the above.

18.03 Performance Until Cancellation or Termination. Notwithstanding the delivery of a Notice of default or Notice of termination or cancellation by either Party to the other, all obligations to perform the Services and to pay for such Services will continue in effect and be duly observed and complied with by both Parties until the effective date of any termination or cancellation.

SECTION 19. TERMINATION ASSISTANCE SERVICES.

19.01 **Termination Assistance Services.** In connection with the termination, cancellation, or expiration of an SLA, the providing Party will comply with the receiving Party's reasonable request to support the orderly transition and migration from the providing Party to the receiving Party (or a third Person services provider, the "Third Person Provider") of all Services then being performed by the providing Party (the "Termination Transition"). The Termination Transition will be provided during the Term of the applicable SLA, or as otherwise stated there. Failure of the Receiving Party to initiate or request transition services in a timely fashion will not extend the term of this Agreement or result in an obligation of the Providing Party to continue to provide services beyond the allowed termination date or extension date. The receiving Party will cooperate in good faith with the providing Party in connection with the providing Party' obligations under this Section 19.01 and will perform its obligations under the Transition Plan; the quality and level of performance during the Termination Assistance Period shall not be degraded by the providing Party, unless agreed in the Transition Plan or between the Parties. The providing Party will perform the following obligations (and such other obligations as may be contained in the Transition Plan) at the receiving Party's expense, unless otherwise stated below or in the Transition Plan. The receiving Party acknowledges and agrees that, as indicated above, the providing Party will have no obligation to provide any form of Termination Transition if the providing Party cancels this Agreement for failure of the receiving Party to pay an undisputed invoice.

(a) Transition Plan. The providing Party and the receiving Party may work together to develop a transition plan (the "Transition Plan") setting forth the respective tasks to be accomplished by each Party in connection with the Termination Transition and a schedule pursuant to which such tasks are to be completed. While a Transition Plan is being created and agreed to by the Parties, if the parties decide not to create a formal Transition Plan, or if no Transition Plan is put into place, the providing Party will perform such transition assistance Services subject to the terms of this Section, as are reasonably requested by the receiving Party.

(b) Specifications. The providing Party will, upon the receiving Party's request, provide the receiving Party with reasonably detailed specifications for the hardware and software, development/maintenance tools, and other Services needed by the receiving Party (or the Third Person Provider) to properly provide the Services then being performed by the providing Party.

(c) Third Person Contracts. Upon the receiving Party's request, with respect to any third Person contracts needed by the providing Party to provide the Services, the providing Party will reasonably assist the receiving Party in the receiving Party's acquisition of any necessary rights under those contracts, or from the third Person, but will not guarantee the performance of such third Person after the termination, cancellation, or expiration of the applicable SLA.

(d) Training. The providing Party will provide appropriate training for the employees of the receiving Party (or the Third Person Provider) who will be assuming responsibility following the Termination Transition for operation of the Services then being used by the providing Party in performing the Service.

(e) Other Services. The providing Party will provide, and the receiving Party shall pay for (as provided in Section 19.01(h), below) any Services reasonably requested by the receiving Party in order to facilitate the transfer of the Services to the receiving Party or another service provider designated by the receiving Party.

(f) Disclosure of Information. Notwithstanding anything to the contrary in this Agreement, the providing Party will not be required to disclose any of its proprietary information, whether in the nature of a trade secret, software or otherwise, to the Third Person Provider except to the extent that the receiving Party is entitled to such information under this Agreement. Prior to providing any termination assistance to the Third Person Provider, the receiving Party will cause the Third Person Provider to provide the providing Party with written assurances, in form and substance reasonably satisfactory to the providing Party, that the Third Person Provider (i) will maintain at all times the confidentiality of any the providing Party proprietary information disclosed or provided to, or learned by, the Third Person Provider in connection therewith and (ii) will use such information exclusively for the purposes for which the receiving Party is authorized to use such information pursuant to this Agreement.

(g) Charges. For so long as this Agreement and the applicable SLA remains in effect and during the Termination Transition but subject to the last two sentences of this Section 19.01(h), the receiving Party will pay to the providing Party the charges set forth in the applicable SLA. If the Termination Transition provided by the providing Party under this Section 19.01 requires personnel or other resources in excess of those resources then being provided by the providing Party under the applicable SLA, the receiving Party will pay the providing Party for such additional resources at the providing Party' then current billing rates, if set forth in the applicable SLA, or, if not so set forth, at the providing Party' then current commercial billing rates, on such periodic basis as the Parties agree in writing. Notwithstanding anything to the contrary in this Agreement, if cancellation is due to the receiving Party breach, all charges to be paid by the receiving Party to the providing Party during the Termination Transition will be paid on a monthly basis in advance.

Any continuation of the provision of these Services beyond the Term will be on such terms as the Parties may mutually agree upon. A Party will have no obligation to continue to provide these Services beyond the Term.

SECTION 20 INDEMNIFICATION.

20.01 Indemnification. Each Party agrees to indemnify and hold harmless the other Party and its Indemnitees against all Losses arising or related to awarded to, or from settlements with any third Person relating to the breach by the indemnifying Party of any terms, provisions, covenants, warranties or representations contained herein and/or in connection with its performance of this Agreement or any provision hereof. Each Party further agrees that it will indemnify and hold harmless the other Party and its Indemnitees from and against all Losses and Claims and all direct costs and expenses incurred by the Party (including reasonable attorney's fees) resulting from, related to or arising out of the Services furnished under this Agreement to the extent that such costs and expenses are incurred as a result of the negligence or willful misconduct of the providing Party. NASD agrees to indemnify and hold harmless Nasdaq against any and all Claims, Losses and expenses (including reasonable attorneys' fees) arising from or in connection with any Claim, arising or related directly to: (i) NASD's misuse of Nasdaq Information or Confidential Information furnished pursuant to the provisions of this Agreement.

20.02 Physical Injuries. Each Party will be solely responsible for any physical injuries, including death, to persons and any damage to tangible personal or real property occurring on account of or in connection with its operations and in performance of this Agreement and will indemnify and hold harmless the other Party and its Indemnitees from any and all Loss and liability related thereto,

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including: (i) liability for the payment of workers compensation and disability benefits; (ii) any and all claims on account of such injuries to persons or physical damage to property; and (iii) all costs and expenses in suits (including reasonable attorney's fees and costs) that may be brought against the other Party or its Indemnitees on account of any such injuries to persons or physical damage to property, *provided, however,* that a Party will not be obligated to indemnify and hold harmless the other Party or any Indemnitee from any Loss or liability arising out of injuries or damage caused by or resulting from the negligence of the Party or its Indemnitee.

20.03 ***Procedures.*** (1). The Party or Person claiming indemnification under this Section will promptly Notify the other Party (not later than fifteen (15) calendar days after the Party claiming indemnification has received Notice of a Claim or has been served with a complaint or other process) when it has knowledge of circumstances or the occurrence of any events that are likely to result in a Claim or an indemnification obligation.

(2). Upon request, and to the extent permitted by applicable Law, the indemnifying Party will have the right to defend, settle, or compromise any such suit or proceeding, at its expense, *provided that*: (A) it demonstrates to the satisfaction of the Party claiming indemnification that it is financially able to defend such action and to pay any Losses; (B) counsel retained by it are reasonably satisfactory to the Party claiming indemnification; and (C) that no settlement will be made which imposes any obligations on (other than the payment of money which is made by the indemnifying Party on behalf of the indemnified Party), or is prejudicial to, the Party claiming indemnification, without the prior consent of the Party claiming indemnification, which consent will not be unreasonably withheld.

(3). The Party or Person claiming indemnification will reasonably cooperate with the other Party in the defense of any such Claim, and the other Party will reimburse the Party or Person claiming indemnification for its reasonable expenses with respect thereto. Such cooperation will include, but not be limited to, the making of statements and affidavits, attendance at hearings and trials, production of documents, assistance in securing and giving evidence and obtaining the attendance of witnesses. The Party or Person claiming indemnification will not be required to waive its attorney-client or other privileges.

(4). Failure by the Party or Person claiming indemnification to promptly Notify the other Party as required by this subsection will not invalidate the claim for indemnification, unless such failure has a material adverse effect on the Claim. In addition, the Party claiming indemnification will be responsible for any Claims or Losses which could have been avoided or mitigated by prompt Notice as required by this subsection.

20.04 ***No Third Person Beneficiaries.*** Nothing in this Agreement will entitle any Person or entity to any rights as a third-party beneficiary under this Agreement.

SECTION 21 DAMAGES.

21.01 ***Direct Damages.*** Neither of the Parties (including its Affiliates) will be liable to the other or any other Person for any direct damages arising out of or relating to its performance or failure to perform under this Agreement in excess of an amount equal to the amount payable by Nasdaq for Services rendered to it under this Agreement.

21.02 ***Consequential Damages.*** Neither of the Parties (including its Affiliates) will be liable for any punitive, indirect, incidental, special, consequential damages, lost profits, opportunity, or savings, arising out of or relating to its performance or failure to perform under this Agreement, even if such Party (or its Affiliate) has been advised of the possibility of such Losses or damages.

21.03 ***Exclusions.*** The limitations or exculpations of liability set forth in Sections 21.01 and 21.02 herein will not apply to: (i) indemnification Claims; or (ii) breaches of Sections 10 (Nasdaq

Information) or 15 (Confidential Information) herein; (i) damage to persons or tangible personal or real property; (ii) gross negligence or willful tortious misconduct.

21.04 ***Allocation of Risk.*** **THE PARTIES UNDERSTAND AND AGREE THAT THE PRICING UNDER THIS AGREEMENT, INCLUDING THE PRICING FOR THE SERVICES, REASONABLY REFLECTS THE ALLOCATION OF RISK AND LIMITATION OF LIABILITY SET FORTH IN THIS AGREEMENT.**

SECTION 22 INSURANCE.

22.01 ***Insurance.*** During the Term and the provision of any termination assistance Services pursuant to Section 19.02 herein,, NASD will obtain, at its own expense, and keep in full force and effect the minimum insurance coverage set forth below. NASD's insurance will be written by one or more acceptable insurance companies that are licensed in the states where the Services are provided. Acceptable insurance companies must have a policy holder rating ("Best Rating") of at least an "A-" and be assigned a financial size category of at least a Class VIII as rated in the most recent edition of "Best's Key Rating Guide."

(1) Workers Compensation Insurance in the minimum statutory amount covering all persons employed, directly or indirectly, in connection with any work performed by the party or for any repair or alteration required by the Party.

(2) Employers Liability insurance of not less than $100,000 each accident, $100,000 disease each employee and $500,000 aggregate policy limit for disease.

(3) Commercial General Liability insurance of not less than $10,000,000 per occurrence for bodily or personal injury (including death) and property damage.

(4) All Risk Property Insurance coverage in an amount adequate to cover the cost of replacement of all personal property, decorations, trade fixtures, furnishings, improvements and betterments, and supplies of the Party procuring such policy without deduction for depreciation.

(5) Automobile Liability insurance for owned, non-owned and hired vehicles with a combined single limit of $10,000,000 for bodily injury and property damage naming the other Party as an additional insured.

(6) Professional liability insurance covering the errors and omissions committed by the policyholder in connection with this Agreement in an amount not less than $10,000,000.

(7) Umbrella Liability insurance written over the Employers Liability, Automobile Liability and CGL policies in the amount of $10,000,000.

(8) Fidelity and Computer Crime Insurance for the dishonest acts of its employees in the amount of $10,000,000.00 for each Loss or series of related Losses. The Party receiving Services from the policyholder will be listed as a Loss Payee as its interests may appear regarding Fidelity and Crime Insurance. However, Losses otherwise payable to the Party receiving Services under such Fidelity and Crime insurance will be reduced by 50 percent whenever such covered dishonest acts involve both the Party providing the services and the party receiving such Services.

22.02 ***Insurance Documentation.*** NASD will furnish to Nasdaq certificates of insurance (on Accord forms) evidencing all coverage referenced in Section 22.01 herein prior to the Effective Date. In the event that Nasdaq is entitled to coverage as an additional insured under NASD's Commercial General Liability, Automobile Liability or Umbrella Liability policies, NASD will allow Nasdaq named as an additional insured to view such policy(ies). NASD will also work closely with the Nasdaq or its outside counsel to validate any claims that may be covered by such NASD's insurance policies. All certificates of insurance will include a provision whereby thirty (30) days prior written Notice must be

received by the party listed as an additional insured prior to coverage cancellation or material alteration of the coverage by either the policyholder or the applicable insurer. NASD will add the Nasdaq as an additional insured on its policies (except for its professional liability, property, workers compensation and crime insurance).

SECTION 23. MISCELLANEOUS PROVISIONS.

23.01 ***Assignment.*** Except as set forth below, neither Party may assign this Agreement without the prior written consent of the other Party, which consent will not be unreasonably withheld, conditioned or delayed. This Agreement, an SLA, and the Services may be, in whole or in part, assigned to or shared by the receiving Party with its Affiliate(s), without the other Party's prior consent. Where the providing Party undergoes or undertakes a merger, acquisition, change of ownership control, sale of substantial relevant assets, spin off or sale of an Affiliate, or similar transaction, it may assign this Agreement, in whole or in part, to the resulting entity or such other Affiliated entity as may be necessary to accomplish this change of control, without the other Party's prior written consent, provided that the providing Party will: undertake all commercially reasonable efforts to segregate Nasdaq Information in order to protect against its unauthorized disclosure; (2) not assign any right or obligation related to a Service to be furnished by it under this Agreement (including the right to provide the Service to the receiving Party) to Third Parties Who Operate a Market; (3) undertake all commercially reasonable efforts to prevent the unauthorized disclosure of the receiving Party's Confidential Information to Third Parties Who Operate a Market; and (iv) not use the Confidential Information of the receiving Party to benefit Third Parties Who Operate A Market without the express prior written permission of the receiving Party. The Providing Party will provide the receiving Party with at least sixty (60) days prior written notice of its merger, acquisition, change of ownership or control, sale of substantial relevant assets, spin off or sale of an Affiliate, or a similar transaction and the receiving Party shall have the right to terminate any or all services within such sixty (60) day period or as otherwise provided in this Agreement. The consent of a Party to any assignment of this Agreement will not constitute such Party's consent to further assignment. This Agreement will be binding on the Parties and their respective successors and permitted assigns. Any assignment in contravention of this subsection will be void. "Third Parties Who Operate a Market" shall mean those Persons other than the NASD who operate (including who plan, develop, test, operate, and maintain the market systems and services) a securities or other financial instruments market; Third Parties Who Operate a Market includes NASD Affiliates (*e.g.* Amex) that operate a market but does not include NASD Affiliates who regulate a market or operate regulatory facilities.

23.02 ***Notices.*** All Notices (and other communications required or permitted to be given under this Agreement in writing) will be in writing and will be deemed to have been duly given upon (i) actual receipt by the notified Party or (ii) constructive receipt (as of the date of the Party's signature

or first refusal to sign the return receipt) if sent by certified mail or overnight delivery service, return receipt requested, to the following addresses:

(a) If to NASD:

NASD, Inc.
1735 K Street, N.W.
Washington, D.C. 20006
Attn: Michael D. Jones—Chief Administrative Officer

With, in the case of Notice of breach or default, a required copy to:
National Association of Securities Dealers, Inc.
1735 K Street, N.W.
Washington, D.C. 20006
Attn: Office of General Counsel—Contracts Group

(b) If to Nasdaq:

The Nasdaq Stock Market, Inc.
One Liberty Plaza
165 Broadway
New York, New York 10006
Attn: David Warren—Executive Vice President and Chief Financial Officer.

With, in the case of Notice of breach or Dispute, a required copy to:
The Nasdaq Stock Market, Inc.
1801 K Street, N.W.
Washington, D.C. 20006
Attn: Office of General Counsel—Contracts Group

Either Party may change its address for notification purposes by giving the other Party ten (10) days prior written Notice of its new address.

23.03 Counterparts. This Agreement may be executed in any number of counterparts, each of which will be deemed an original, but all of which taken together shall constitute one single agreement between the Parties.

23.04 Relationship. The Parties intend to create an independent contractor relationship and nothing contained in this Agreement will be construed to make either Nasdaq or NASD partners, joint venturers, principals, or employees of the other. Each Party and its personnel, in performance of this Agreement, are acting as independent contractors and not as employees of the other. Neither Party will have any right, power or authority, express or implied, to bind the other.

23.05 Severability. If any provision of this Agreement is held by a court of competent jurisdiction to be contrary to Law, then the remaining provisions of this Agreement, if capable of substantial performance, will remain in full force and effect.

23.06 Waiver. No failure on the part of NASD or Nasdaq to exercise, no delay in exercising, and no course of dealing with respect to any right, power, or privilege under this Agreement will operate as a waiver thereof, nor will any single or partial exercise of any such right, power, or privilege preclude any other or further exercise thereof or the exercise of any other right, power, or privilege under this Agreement.

23.07 Remedies Cumulative. Except as otherwise set forth in this Agreement, no right or remedy herein conferred upon or reserved to either Party is intended to be exclusive of any other right or remedy, and each and every right and remedy will be cumulative and in addition to any other right or remedy under this Agreement, or under applicable Law, whether now or hereafter existing.

23.08 Entire Agreement. This Agreement and the Exhibits and SLAs to this Agreement represent the entire agreement between the Parties with respect to its subject matter, and there are no other representations, understandings or agreements between the Parties relative to such subject matter.

23.09 Amendments. No amendment to, or change, waiver or discharge of, any provision of this Agreement will be valid unless in writing and signed by an authorized representative of each of the Parties.

23.10 Survival Of Provisions. The terms of this Agreement apply to those rights that survive any cancellation, termination, expiration, or rescission, namely—Confidentiality, Non-use of Names and Marks, obligations that require indemnification and any warranties. Payment obligations of one Party to the other arising prior to the cancellation, termination, expiration, or recession of this Agreement will survive the expiration of termination, cancellation, or expiration of this Agreement.

23.11 Governing Law. This Agreement will be deemed to have been made in the State of New York and will be construed and enforced in accordance with, and the validity and performance hereof will be governed by, the Laws of the State of New York, without reference to its principles of conflicts of Laws. The Parties hereby consent to submit to the jurisdiction of the federal or state courts of or located in the City of New York in connection with any action or proceeding instituted relating to this Agreement.

23.12 Covenant of Further Assurances. Nasdaq and NASD covenant and agree that, subsequent to the execution and delivery of this Agreement and, without any additional consideration, each of Nasdaq and NASD will execute and deliver any further legal instruments and perform any acts that are or may become necessary to effectuate the purposes of this Agreement.

23.13 Export. Nasdaq and NASD agree that they each will comply with all applicable export Laws and regulations of the United States. Each Party will cooperate with the other Party in connection the requirements of this Section, including promptly furnishing any end-user certificates, affidavits regarding re-export or other applicable certificates or documents.

23.14 Authorization. This Agreement will not be binding upon the Parties unless executed by an authorized officer of NASD and Nasdaq. Nasdaq and NASD and the persons executing this Agreement represent that such persons are duly authorized by all necessary and appropriate corporate or other action to execute this Agreement on behalf of NASD and Nasdaq.

23.15 Interpretation. The masculine, feminine or neuter gender and the singular or plural number will be deemed to include the other gender or numbers where the context so indicates or requires. Unless otherwise expressly provided, references to days, months or years are to calendar days, months or years. *Person* or *persons* includes individuals, partnerships, corporations, government agencies or other entities. Words or phrases with initial capital letters have the definition regardless of the part of speech.

IN WITNESS WHEREOF, the Parties hereto have each caused this Agreement to be signed and delivered by their duly authorized representative.

National Association of Securities Dealers, Inc. *(NASD)*		The Nasdaq Stock Market, Inc. *(Nasdaq)*	
By:	/s/ MICHAEL D. JONES	By:	/s/ DAVID P. WARREN
Name:	/s/ MICHAEL D. JONES	Name:	/s/ DAVID P. WARREN
Title:	SE VP and CAO	Title:	EVP and CFO
Date:	2/6/03	Date:	3/14/03

QuickLinks

Exhibit 10.6

TABLE OF EXHIBITS
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Exhibit 10.14

EMPLOYMENT AGREEMENT

EMPLOYMENT AGREEMENT made and entered into effective as of December 29, 2000 by and between The Nasdaq Stock Market, Inc. (the "Company") and Edward Knight (the "Executive").

WHEREAS, the Company desires to continue to employ the Executive and to enter into an agreement embodying the terms of such employment and considers it essential to its best interests and the best interests of its stockholders to foster the continued employment of the Executive by the Company during the term of the Agreement;

WHEREAS, the Executive desires to accept such employment and enter into such an agreement; and

WHEREAS, the Executive is willing to accept employment on the terms hereinafter set forth in this agreement (the "Agreement").

NOW, THEREFORE, in consideration of the premises and mutual covenants herein and for other good and valuable consideration, the parties hereby agree as follows:

1. Term of Employment. Subject to Section 9, the term of the Executive's employment under this Agreement shall commence on December 30, 2000 (the "Executive Date") and shall end on December 31, 2003; provided, however, that such term shall be automatically extend for additional one year (1) year periods unless, not later than six (6) months prior to the expiration of the initial period (or any extension thereof pursuant to this Section 1), either party hereto shall provide written notice of its or his desire not to extend the term hereof to the other party hereto (the initial period together with each one-year extension shall be referred to hereinafter as the "Employment Term").

2. Position.

(a) The Executive shall serve as the Company's Executive Vice President and Chief Legal Officer. In such position, the Executive shall have such duties and authority as shall be determined from time to time by the Board of Directors of the Company (the "Board") or the Chief Executive Officer (the "CEO") of the Company or it or his designee. During the Employment Term, the Executive shall devote his full time and best efforts to his duties hereunder; provided, however, that nothing in this Agreement shall preclude the Executive from (i) engaging in personal activities involving charitable, community, educational, religious or similar organizations, (ii) managing his personal investments and affairs to the extent that such activities are not in any manner inconsistent with or in conflict with the performance of the Executive's duties hereunder and (iii) continuing to serve as a member of the board of directors or board of advisors of the entities set out on Schedule A annexed hereto. Pursuant to the Company's Code of Conduct, the Executive shall be required to: (i) disclose to the Audit Committee the names of the board of directors on which he currently serves and (ii) obtain prior approval form the Audit Committee for service as a new director of any publicly traded company. The Executive agrees to accept the final Audit Committee decision on the suitability of all present and future directorships as binding.

3. Base Salary. During the Employment Term, the Company shall pay the Executive annual base salary (the "Base Salary") at the annual rate no less than the rate of base salary in effect as of the Effective Date. Base Salary shall be payable in regular installments in accordance with the Company's usual payroll practices. The Management Compensation Committee of the Board (the "Compensation Committee") shall review Base Salary for the purpose of increasing it in accordance with its normal review procedures.

4. Incentive Compensation/Bonus. With respect to each calendar year during the Employment Term the Company shall pay to the Executive such incentive compensation (hereinafter the "Incentive Compensation") as the Compensation Committee may award in its discretion, with a guarantee of 100% of Base Salary determined as of the December 31st of the preceding year for each of the 2001,

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2002 and 2003 calendar years. Incentive Compensation shall be pro rated for any employment during a calendar year of less than twelve (12) months (determined by the ratio that the number days during which the Executive was employed during a calendar year bears to 365). Incentive Compensation for each calendar year shall be paid at the same time as the Company pays Incentive Compensation awards to other executives, but in no event later than the March 1st following the calendar year with respect to which the Incentive Compensation relates.

5. Employee Benefits.

(a) Employee Benefits-Generally. During the Employment Term, the Executive shall be provided with benefits on the same basis as benefits are generally made available to other senior executives of the Company, including without limitation, medical, dental, vision, disability, life insurance and pension benefits. The Executive shall be entitled to four (4) weeks paid vacation.

(b) SERP Enhancements. The Executive shall be entitled to continue to participate in the NASD Supplemental Executive Retirement Plan (the "SERP"). Notwithstanding any term or condition contained in the SERP to the contrary:

(i) Section 4.1 of the SERP shall be applied as if the age and service requirements stated therein were age 55 and five (5) years of service rather than age 55 and ten (10) years of service. Accordingly, the Executive shall be 100% vested in his accrued SERP benefit upon the later of his attainment of age 55 while employed and his completion of five (5) years of service.

(ii) Section 4.1 of the SERP shall be applied as if the age and service requirements stated therein were satisfied upon the Executive's termination of employment prior to the end of the Employment Term (x) on account of his death or Disability (as defined in Section 9(b) hereof), (y) by the Company without Cause pursuant to Section 9(c) hereof, or (z) by the Executive for Good Reason pursuant to Section 9(c) hereof. Accordingly, under such circumstances the Executive shall be 100% vested in his SERP benefit even if his employment terminates prior to his attaining age 55 and having completed five (5) years of service with the Company.

(iii) The death benefit provided in Section 5.1 of the SERP shall become payable if the Executive dies before his SERP benefit commences, but after having satisfied the requirements of Section 4.1 of the SERP as modified by Section 5(b)(i) or (ii) (and if the foregoing conditions are satisfied, such death benefit will be payable even if the Executive's death occurs after he has left employment with the Company with vested SERP rights, but before the SERP benefit commences).

(iv) Section 4.3 of the SERP (relating to early retirement) shall be applied as if the service requirement stated therein were five (5) years of services rather than ten (10) years of service; provided, that this special rule shall not permit the Executive's SERP benefit to start earlier than age 55.

(v) The special provisions of this Section 5(b) shall not accelerate the rate at which the SERP benefit accrues so that the amount of the accrued SERP benefit shall be determined with reference to an accrual over a period of 3,650 days as provided in Section 4.2(a) of the SERP.

6. Equity. The Executive shall be granted pursuant to The Nasdaq Stock Market, Inc. Equity Compensation Plan (the "Stock Plan") which has been adopted by the Board and may from time to time be amended, options to purchase shares of the Company's common stock in a number commensurate with the Executive's title and responsibility (subject to applicable adjustments pursuant to Section 4(b) of the Stock Plan), with a term of ten (10) years from the date of grant and an option

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exercise price equal to fair market value of the Company's common stock on the date of grant. Such option shall be subject to all the terms and conditions of the Stock Plan, and a stock option agreement to be entered into by and between the Company and the Executive.

7. Fringe Benefits.

(a) Business Expenses. During the Employment Term, reasonable business expenses incurred by the Executive in the performance of his duties hereunder shall be reimbursed by the Company in accordance with the policy established by the Compensation Committee. Accordingly, the Executive's expenses associated with business travel shall be reimbursed by the Company in accordance with such policy, and where appropriate the Executive's spouse shall be permitted to travel with the Executive and the Executive shall be similarly reimbursed for the cost of his spouse's travel.

(b) Transportation and Housing.

(i) During the Employment Term, in accordance with the directives of the Compensation Committee, the Executive shall be provided with reasonable transportation for business purposes while in New York City and/or Washington, D.C.

(ii) During the Employment Term, the Company shall provide the Executive with either (A) financial assistance in purchasing (or renting) a residence in the New York metropolitan area, (B) the use of a corporate apartment in New York City or (C) a housing allowance; provided, however, that with respect to each calendar year during the Employment Term the provision of benefits described in this Section 7(b)(ii) (the "Housing Program") shall not exceed 15% of the sum of the Executive's Base Salary and Incentive Bonus with respect to such calendar year. All such benefits provided under the Housing Program shall be subject to the prior approval and consent of the Board or a Committee, thereof.[1]

1 The actual form of housing assistance will be worked out with outside advisers to determine an appropriate package for the Executive consistent with corporate practice in New York City and the Executive's individual needs.

(c) Legal Fees. The Company shall pay or reimburse the Executive for his reasonable legal fees and expenses incurred in connection with the negotiation and execution of this Agreement upon presentation by the Executive of written invoices or receipts setting forth in reasonable detail the basis for such legal fees and expenses.

8. Stay Pay. Subject to the Executive's employment with the Company on December 30, 2002 (the "Stay Pay Date"), the Company shall pay the Executive an additional bonus equal to two (2) times his Base Salary as in effect on the Stay Pay Date (the "Stay Pay Bonus"); provided, however, that the Executive's earlier death or Disability (as defined in Section 9(c) hereof) while employed or termination pursuant to Section 9(c) hereof shall also be a Stay Pay Date. The Stay Pay Bonus shall be paid in a lump sum within 30 business days following the Stay Pay Date. The Company and the Executive may at the end of initial Employment Term without regard to any extension thereof pursuant to the last sentence of Section 1 hereof, agree to an additional stay payment in consideration of the renewal of the Employment Term at such time.

9. Termination. Notwithstanding any other provision of the Agreement:

(a) For Cause by the Company. The Employment Term and the Executive's employment hereunder may be terminated by the Company for "Cause." For purposes of the Agreement, "Cause" shall mean (i) the Executive's conviction of, or pleading nolo contendere to, a felony, (ii) the Executive's conviction of, or pleading nolo contendere to, any crime, whether a felony or misdemeanor, involving the purchase or sale of any security, mail or wire fraud, theft, embezzlement, moral turpitude or Company property; (iii) the Executive's gross neglect of his

duties hereunder or (iv) the Executive's willful misconduct in connection with the performance of his duties hereunder or any other material breach by the Executive of this Agreement; provided, however that the Executive shall not be deemed to have been terminated for Cause unless (i) reasonable notice has been delivered to him setting forth the reasons for the Company's intention to terminate him for Cause and (ii) a period of thirty (30) days has elapsed since delivery of such notice. If the Executive is terminated for Cause, he shall be entitled to receive his Base Salary through the date of termination. Upon termination of the Executive's employment for Cause pursuant to this Section 9(a), the Executive shall have no further rights to any compensation (including any Incentive Compensation or Stay Pay Bonus) or any other benefits under the Agreement. All other benefits, if any, due the Executive following the Executive's termination of employment pursuant to this Section 9(a) shall be determined in accordance with the plans, policies and practices of the Company.

(b) Disability or Death. The Employment Term and the Executive's employment hereunder shall terminate upon his death and the Company may terminate the Executive if he becomes physically or mentally incapacitated and is therefore unable for a period of 45 consecutive working days or 75 working days in a six (6) month period to perform his duties (such incapacity is hereinafter referred to as "Disability"). Any question as to the existence of the Disability of the Executive as to which the Executive and the Company cannot agree shall be determined in writing by a qualified independent physician mutually acceptable to the Executive and the Company. If the Executive and the Company cannot agree as to a qualified independent physician, each shall appoint such a physician and those two physicians shall select a third who shall make such determination in writing. The determination of Disability made in writing to the Company and the Executive shall be final and conclusive for all purposes of this Agreement.

Upon termination of the Executive's employment hereunder for either Disability or death, the Executive or his estate (as the case may be) shall be entitled to receive (i) any accrued but unpaid Base Salary through the end of the month in which such termination occurs, (ii) all unpaid Base Salary for the remainder of the Employment Term, (iii) the Stay Pay Bonus provided by Section 8 hereof if not already paid and (iv) all other current cash obligation of the Company to the Executive (e.g. unused vacation). All other benefits, if any, due the Executive following termination pursuant to this Section 9(b) shall be determined in accordance with the plans, policies and practices of the Company; provided, however, that the Executive shall not participate in any other severance plan, policy or program of the Company.

(c) Termination by the Executive for Good Reason or by the Company without Cause. The Employment Term and the Executive's employment hereunder may be terminated by the Executive for "Good Reason" as defined below upon not less than thirty (30) days written notice to the Company. For purposes of this Agreement "Good Reason" shall mean the Company (i) reducing the Executive's position, duties, or authority, (ii) failing to secure the agreement of any successor entity to the Company that the Executive shall continue in this position without reduction in position, duties or authority, (iii) committing any other material breach of this Agreement which is not remedied by the Company (if capable or remedy) within thirty (30) days after receiving notice thereof from the Executive or (iv) the Company providing notice of nonrenewal of the Employment Term in accordance with Section 1 hereof.

If the Executive's employment is terminated by the Company without "Cause" (other than by reason of his Disability or death) or the Executive terminates this Agreement for Good Reason, the Executive shall be entitled to receive: (i) any accrued but unpaid Base Salary through the date of such termination, (ii) the Stay Pay Bonus provided by Section 8 hereof if not already paid, (iii) all other current cash obligations of the Company to the Executive (e.g. unused vacation) and (iv) a prorata portion of the Incentive Compensation due the Executive pursuant to Section 4 and calculated in accordance with Section 4. In addition, the Executive shall be entitled to receive his Base Salary and

Incentive Compensation through the later of (i) the balance of the Term or (ii) twenty-four months from the date of such termination (the "Severance Period"); provided, however, that in the event the Executive's employment shall terminate pursuant to this Section 9(c), within one year following August 9, 2002, the severance required to be paid the Executive pursuant to this Section 9(c) shall be reduced by one-half the Stay Pay Bonus previously paid the Executive. Such severance shall be paid in a lump sum within thirty (30) days following the termination date. The Company shall provide continued health coverage at its expenses for the Severance Period. All other benefits, if any, due the Executive following termination pursuant to this Section 9(c) shall be determined in accordance with the plans, policies and practices of the Company; provided, however, that the Executive shall not participate in any severance plan, policy or program of the Company.

(d) Termination by the Executive without Good Reason. The Employment Term and the Executive's employment hereunder may be terminated by the Executive for any reason upon 60 days notice to the Company. Upon a termination by the Executive pursuant to this Section 9(d) the Executive shall be entitled to his Base Salary through the date of such termination. Upon termination of the Executive pursuant to this Section 9(d), the Executive shall have no further rights, other than those set forth in this Section 9(d), to any compensation or any other benefits under the Agreement. All other benefits, if any, due the Executive following termination pursuant to this Section 9(d) shall be determined in accordance with the plans, policies and practices of the Company; provided, however, that the Executive shall not participate in any severance plan, policy or program of the Company.

(e) Mitigation/Offset. Following the termination of his employment under any of the above clauses of this Section 9, the Executive shall have no obligation or duty to seek subsequent employment or engagement as an employee (including self employment) or as a consultant or otherwise mitigate the Company's obligations hereunder; nor shall the payments provided by this Section 9 be reduced by the compensation earned by the Executive, as an employee or consultant from such subsequent employment or consultancy.

(f) Excise Tax Payments.

(i) Gross-Up Payment. If it shall be determined that any payment or distribution of any type to or in respect of the Executive, by the Company, or any other person, whether paid or payable or distributed or distributable pursuant to the terms of the Agreement or otherwise (the "Total Payments"), is or will be subject to the excise tax imposed by Section 4999 of the Internal Code of 1986, as amended (the "Code") or any interest or penalties with respect to such excise tax (such excise tax, together with any such interest and penalties, are collectively referred to as the "Excise Tax"), then the Executive shall be entitled to receive an additional payment (a "Gross-Up Payment") in an amount such that after payment by the Executive of all taxes (including any interest or penalties imposed with respect to such taxes) imposed upon the Gross-Up Payment, the Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Total Payments.

(ii) Determination by Accountant.

(A) All computations and determinations relevant to this Section 9(f) shall be made by a national accounting firm selected by the Company from among the five (5) largest accounting firms in the United States (the "Accounting Firm") which firm may be the Company's accountants. Such determinations shall include whether any of the Total Payments are "parachute payments" (within the meaning of Section 280G of the Code). In making the initial determination hereunder as to whether a Gross-Up Payment is required the Accounting Firm shall determine that no Gross-Up Payment is required, if the Accounting Firm is able to conclude that no "Change of Control" has occurred (within the meaning of Section 280G of the Code) on the basis of "substantial authority"

(within the meaning of Section 6230 of the Code) and shall provide opinions to that effect to both the Company and the Executive. If the Accounting Firm determines that a Gross-Up Payment is required, the Accounting Firm shall provide its determination (the "Determination"), together with detailed supporting calculations regarding the amount of any Gross-Up Payment and any other relevant matter both to the Company and the Executive by no later than ten (10) days following the Termination Date, if applicable, or such earlier time as is requested by the Company or the Executive (if the Executive reasonably believes that any of the Total Payments may be subject to the Excise Tax). If the Accounting Firm determines that no Excise Tax is payable by the Executive, it shall furnish the Executive and the Company with a written statement that such Accounting Firm has concluded that no Excise Tax is payable (including the reasons therefor) and that the Executive has substantial authority not to report any Excise Tax on his federal income tax return.

(B) If a Gross-Up Payment is determined to be payable, it shall be paid to the Executive within twenty (20) days after the Determination (and all accompanying calculations and other material supporting the Determination) is delivered to the Company by the Accounting Firm. Any determination by the Accounting Firm shall be binding upon the Company and the Executive, absent manifest error.

(C) As a result of uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments not made by the Company should have been made ("Underpayment"), or the Gross-Up Payments will have been made by the Company which should not have been made ("Overpayment"). In either such event, the Accounting Firm shall determine the amount of the Underpayment or Overpayment that has occurred. In the case of an Underpayment, the amount of such Underpayment (together with any interest and penalties payable by the Executive as a result of such Underpayment) shall be promptly paid by the Company to or for the benefit of the Executive.

(D) In the case of an Overpayment, the Executive shall, at the direction and expense of the Company, take such steps as are reasonably necessary (including the filing of returns and claims for refund), follow reasonable instructions from, and procedures established by, the Company, and otherwise reasonably cooperate with the Company to correct such Overpayment, provided, however, that (i) the Executive shall not in any event be obligated to return to the Company an amount greater than the net after-tax portion of the Overpayment that he has retained or has recovered as a refund from the applicable taxing authorities and (ii) this provision shall be interpreted in a manner consistent with the intent of Section 9(f)(i), which is to make the Executive whole, on an after-tax basis, from the application of the Excise Taxes, it being acknowledged and understood that the correction of an Overpayment may result in the Executive repaying to the Company an amount which is less than the Overpayment.

(E) The Executive shall notify the Company in writing of any claim by the Internal Revenue Service relating to the possible application of the Excise Tax under Section 4999 of the Code to any of the payments and amounts referred to herein and shall afford the Company, at its expense, the opportunity to control the defense of such claim.

10. Non-Competition/Confidentiality. (a) The Executive acknowledges and recognizes the highly competitive nature of the businesses of the Company and accordingly agrees as follows:

(a) During the Employment Term and for a period of one (1) year following the earlier of (i) the expiration of the Employment Term and (ii) the date the Executive ceases to be employed

by the Company (the "Restricted Period"), the Executive will not directly or indirectly, (A) engage in any "Competitive Business" (as defined below) for the Executive's own account, (B) enter the employ of, or render any services to, any person engaged in a Competitive Business, (C) acquire a financial interest in, or otherwise become actively involved with, any person engaged in a Competitive Business, directly or indirectly, as an individual, partner, shareholder, officer, director, principal, agent, trustee or consultant, or (D) interfere with business relationships (whether formed before or after the date of the Agreement) between the Company and customers or suppliers of the Company. For purposes of this Agreement Competitive Business shall mean (i) any national securities exchange registered with the Securities and Exchange Commission, (ii) Electronic Communications Network or (iii) any other entity that engages in substantially the same business as the Company.

(b) Notwithstanding anything to the contrary in the Agreement, the Executive may, directly and indirectly own, solely as an investment, securities of any person engaged in the business of the Company which are publicly traded on a national or regional stock exchange or on the over-the-counter market if the Executive (A) is not a controlling person of, or a member of a group which controls, such person and (B) does not, directly or indirectly, own 5% or more of any class of securities of such person.

(c) During the Restricted Period, the Executive will not, directly or indirectly, solicit or encourage to cease to work with the Company any consultant or employee then under contract or employed by or with the Company.

(d) The Executive hereby agrees that he will comply with the Company's general policies regarding confidentiality. Without in any way limiting the foregoing sentence, the Executive further agrees that he will not, at any time during or after the Employment Term, make use of or divulge to any other person, firm or corporation any trade or business secret, process, method or means, or any other confidential information concerning the business or policies of the Company, which he may have learned in connection with his employment. For purposes of this Agreement, a "trade or business secret, process, method or means, or any other confidential information" shall mean and include written information treated as confidential or as a trade secret by the Company. The Executive's obligation under this Section 10(d) shall not apply to any information which (i) is known publicly; (ii) is in the public domain or hereafter enters the public domain without the fault of the Executive; (iii) is known to the Executive prior to his receipt of such information from the Company, as evidenced by written records of the Executive or (iv) is hereafter disclosed to the Executive by a third party not under an obligation of confidence to the Company. The Executive agrees not to remove from the premises of the Company, except as an employee of the Company in pursuit of the business of the Company or except as specifically permitted in writing by the Board, any document or other object containing or reflecting any such confidential information. The Executive recognizes that all such documents and objects, whether developed by him or by someone else, will be the sole exclusive property of the Company. Except as specifically authorized by the Board upon termination of his employment hereunder, the Executive shall forthwith deliver to the Company all such confidential information, including without limitation all lists of customers, correspondence, accounts, records and any other documents (whether or not electronically or digitally produced) or property made or held by him or under his control in relation to the business or affairs of the Company, and no copy of any such confidential information shall be retained by him.

(e) it is expressly understood and agreed that although the Executive and the Company consider the restrictions contained in this Section 10 to be reasonable, if a final judicial determination is made by a court of competent jurisdiction that the time or territory or any other restriction contained in the Agreement is an unenforceable restriction against the Executive, the provisions of the Agreement shall not be rendered void but shall be deemed amended to apply as

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to such maximum time and territory and to such maximum extent as such court may judicially determine or indicate to be enforceable. Alternatively, if any court of competent jurisdiction finds that any restrictions contained in the Agreement is unenforceable, and such restriction cannot be amended so as to make it enforceable, such finding shall not affect the enforceability of any of the other restrictions contained herein.

11. Nondisparagement. The Executive agrees (whether during or after the Executive's employment with the Company) not to issue, circulate, publish or utter any false or disparaging statements, remarks or rumors about the Company or its shareholders unless giving truthful testimony under subpoena.

12. Specific Performance. The Executive acknowledges and agrees that the Company's remedies at law for a breach or threatened breach of any of the provisions of Section 10 or Section 11 would be inadequate and, in recognition of this fact, the Executive agrees that, in the event of such a breach or threatened breach, in addition to any remedies at law, the Company, without posting any bond, shall be entitled to obtain equitable relief in the form of specific performance, temporary restraining order, temporary or permanent injunction or any other equitable remedy which may then be available.

13. Miscellaneous.

(a) Acceptance. The Executive hereby represents that his performance and execution of the Agreement does not and will not constitute a breach of any agreement or arrangement to which he is a party or is otherwise bound, including, without limitation, any noncompetition or employment agreement.

(b) Governing Law. The Agreement shall be governed by and construed in accordance with the laws of the State of New York without regard to conflict of law provisions.

(c) Entire Agreement/Amendment. The Agreement contains the entire understanding of the parties with respect to the employment of the Executive by the Company and any and all employment agreement previously entered into shall be null and void. There are no restrictions, agreements, promises, warranties, covenants or by and between the Company and the Executive undertakings between the parties with respect to the subject matter herein other than those expressly set forth herein. The Agreement may not be altered, modified, or amended except by written instrument signed by the parties hereto.

(d) No Waiver. The failure of a party to insist upon strict adherence to any term of the Agreement on any occasion shall not be considered a waiver of such party's rights or deprive such party of the right thereafter to insist upon strict adherence to that term or any other term of the Agreement.

(e) Severability. In the event that any one or more of the provisions of the Agreement shall be or become invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions of the Agreement shall not be affected thereby.

(f) Successor/Assignment. The Agreement is confidential and personal and neither of the parties hereto shall, without the consent of the other, assign or transfer this Agreement or any rights or obligations hereunder. Without limiting the foregoing, the Executive's right to receive payments hereunder shall not be assignable or transferable whether by pledge, creation of a security interest or otherwise, other than a transfer by your will or by the laws of descent distribution. In the event of any attempted assignment or transfer contrary to this paragraph, the Company shall have no liability to pay the assignee or transferee any amount so attempted to be assigned or transferred. The Agreement shall be binding upon any successor of the Company, its assets, or its business, subsidiaries, affiliates (whether direct or indirect, by purchase, merger, consolidation or otherwise). In the event that any successor fails to agree in writing to assume this Agreement prior to the effective date of such event, then all entitlements in this Agreement cash or otherwise shall be immediately payable in full by the Company at such time of event notwithstanding any other provisions in this Agreement to the contrary.

(g) Notice. For the purpose of the Agreement, notices and all other communications provided for in the Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by United States registered mail, return receipt requested, postage prepaid, addressed to the respective addresses set forth on the execution page of the Agreement, provided that all notices to the Company shall be directed to the attention of the Chief Executive Officer or to such other address as either party may have furnished to the other in writing in accordance herewith, except that notice of change of address shall be effective only upon receipt.

(h) Withholding Taxes. The Company may withhold from any amounts payable under the Agreement such Federal, state and local taxes as may be required to be withheld pursuant to any applicable law or regulation.

(i) Counterparts. The Agreement may be signed in counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

[Remainder of this page left intentionally blank.]

IN WITNESS WHEREOF, the parties hereto have duly executed the Agreement as of the day and year first above written.

EXECUTIVE

/s/ EDWARD S. KNIGHT

Edward S. Knight

THE NASDAQ STOCK MARKET, INC

By: /s/ FRANK ZARB

Frank Zarb

/s/ TODD A. ROBINSON

Todd A. Robinson
Chairman, Management Compensation Committee

Schedule A

Board of Directors and
Board of Advisors Membership

Edward Knight

University of Texas School of Law Alumni Association

QuickLinks

Exhibit 10.14

Exhibit 10.14.1

**AMENDMENT ONE TO THE
EMPLOYMENT AGREEMENT**

This Amendment is hereby entered into effective as of February 1, 2002, by and between The Nasdaq Stock Market, Inc. (the "Company") and Edward S. Knight (the "Executive").

W I T N E S S E T H

WHEREAS, the Company and the Executive entered into on December 29, 2000, an Employment Agreement (the "Employment Agreement"), providing for the Executive's continued employment with the Company; and

WHEREAS, the Company and the Executive desire to amend the Employment Agreement.

NOW THEREFORE, in consideration of the premises and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto hereby agree as follows:

1. Section 4 of the Employment Agreement is hereby amended by adding the following two new sentences at the end thereof:

> Notwithstanding the foregoing, twenty percent (20%) of the Incentive Compensation, otherwise due and payable with respect to each calendar year (the "Retained Amount"), shall be retained by the Company in accordance with the terms of the Company's Retention Component of the Incentive Compensation Program, as adopted by the Compensation Committee on January 23, 2002 (the "Retention Policy"), as such policy may be amended from time to time. The Retained Amount shall be credited with interest at the rate set forth in the Retention Policy and shall be due and payable pursuant to the terms of the Retention Policy.

2. For the avoidance of doubt, this Amendment shall in no way reduce or otherwise negatively impact: (i) the calculation of the SERP benefits due the Executive pursuant to Section 5(b) of the Employment Agreement, or (ii) the amount of severance otherwise due and payable to the Executive in accordance with applicable subsection of Section 9 of the Employment Agreement.

3. Except as specially set forth above, all other provisions of the Employment Agreement shall remain unchanged and in full force effect.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed February 24, 2002.

By: /s/ EDWARD S. KNIGHT

Edward S. Knight

THE NASDAQ STOCK MARKET, INC

By: /s/ H. FURLONG BALDWIN

H. Furlong Baldwin, Chairman of
The Nasdaq Stock Market, Inc.
Management Compensation Committee

QuickLinks -- Click here to rapidly navigate through this document

Exhibit 10.21.1

First Amendment dated as of

December 9, 2002

to the

MASTER AGREEMENT

dated as of

February 6, 2002

among

National Association of Securities Dealers, Inc.

The Nasdaq Stock Market, Inc.

American Stock Exchange Membership Corporation

The Nasdaq-100 Trust

and

American Stock Exchange LLC

This First Amendment, dated as of December 9, 2002 is made by and among the National Association of Securities Dealers, Inc., a Delaware nonprofit corporation with its principal place of business located at 1735 K Street N.W., Washington, DC 20006 (*NASD*), The Nasdaq Stock Market, Inc., a Delaware corporation with its principal place of business located at One Liberty Plaza, 165 Broadway, New York, NY 10006 (*Nasdaq)*, and the American Stock Exchange LLC, a Delaware limited liability corporation with its principal place of business located at 86 Trinity Place, New York, NY 10006 (*Amex*) (NASD, Nasdaq and Amex are collectively referred to herein as the *Parties* and individually as a *Party*), and for certain provisions, the American Stock Exchange Membership Corporation, a New York Type A not-for-profit corporation with its principal place of business located at 86 Trinity Place, New York, NY 10006 (*Old Amex*) and Nasdaq Financial Products Services, Inc., a Delaware corporation (*Nasdaq FPS*) (collectively with the Parties, the *Participants*). Unless otherwise herein defined, all defined terms shall have the meanings assigned to them in the Master Agreement.

RECITALS

WHEREAS, on February 6, 2002 the Participants executed the Master Agreement to provide for certain transfers of Nasdaq Technology to Amex, to enter into certain business arrangements, and to provide for the means by which the Participants' ongoing relationships would be governed (*Master Agreement*); and

WHEREAS, *****[*]

NOW, THEREFORE, in consideration of the foregoing and the covenants and agreements set forth below and for good and valuable consideration, the Participants hereby amend the Master Agreement as follows:

ARTICLE 1

Definitions and Construction.

The Defined Term "Foreign" is amended by deleting it in its entirety and substituting the following:

"Foreign," as applied to region(s), nation(s), country(ies), or market(s) in this Agreement, means not under the sovereignty of the United States.

ARTICLE 2

Transfer of Assets and Related Services

Article 2 is amended by deleting all of its provisions and substituting the following:

Section 2.01 Provision of Technology. The provision of Nasdaq Technology among the Parties will be governed by the terms and conditions of the Technology Transition Agreement among the Parties, a copy of which is attached hereto as Exhibit D.

Section 2.02 Transfer Documents. Each Party hereto agrees to deliver to the other Parties hereto on a timely basis, without any additional consideration, such other documents, instruments, certificates and agreements as may be reasonably requested by any of such other Parties hereto in connection with the transactions contemplated hereby and to take such further action as may be reasonably necessary to carry out the provisions hereof, including without limitation, the delivery and execution of appropriate transfer instruments.

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* Confidential Treatment has been requested for the redacted portions. The confidential redacted portions have been filed separately with the Securities and Exchange Commission.

Section 2.03 Trading Rights.

Section 2.03.1 Options. ****[*].

Section 2.03.2 ETFs. Nasdaq agrees that, until ****[*], neither Nasdaq nor any of its Affiliates will list shares in any ETF that, as of the Effective Date: (i) is listed on the Amex; or (ii) Amex or its issuers have publicly announced will be listed on the Amex. Through April 10, 2004, neither Nasdaq nor any of its Affiliates will, consistent with its contractual obligations existing on the Effective Date, discriminate against Amex in the licensing of trading rights to Domestic ETFs, and if Nasdaq or any of its Affiliates licenses Domestic trading rights to an ETF to a third party, Nasdaq or its applicable Affiliate will also make available to Amex a non-exclusive license to trade such ETF Domestically at a reasonable and usual commercial rate.

Section 2.03.3 QQQ. Nasdaq and the QQQ Trust shall grant to Amex, pursuant to the License Agreement attached hereto as Exhibit E, a license to continuously: (i) list exclusively and, on a non-exclusive basis, trade and market QQQ Domestically until ****[*]; and (ii) list, trade and market, QQQ in each Foreign region until ****[*], on a non-exclusive basis beginning on ****[*], *provided, however,* that in Asia such license shall begin on ****[*]. For purposes of Sections 2.03.3 and 2.03.4 herein, the license granted to Amex for Asia shall be limited to the ****[*].

Section 2.03.4 Annual Fees. Beginning in calendar year 2002, Amex will pay an annual fee of up to $5.5 million to Nasdaq for the right to list, trade and market QQQ. This fee will be calculated as follows:

Section 2.03.4.1 Domestic. (a) This annual fee for the license granted under Section 2.03.3 includes Amex's payment of $4.5 million to Nasdaq for the right to list, trade and market QQQ Domestically. ****[*].

(b) In addition, if, during any calendar year or such shorter period if the license granted under Section 2.03.3 is in effect for less than one full calendar year:

(i) ****[*]

(ii) ****[*]

(c) ****[*]

Section 2.03.4.2 International. In addition to the $4.5 million Domestic annual fee, Amex will pay an additional annual fee of $500K to Nasdaq for the right to trade QQQ in Foreign regions. Amex will begin paying this $500K additional annual fee upon its registration of QQQ for listing on any market in a Foreign region. Although this annual fee will be paid quarterly by Amex on a prorated basis, Amex will adjust the amount of its payment in the last quarter of each year to ensure that it has paid the entire $500K fee to Nasdaq on an annual basis. If Amex does not trade QQQ in any market in a foreign region, it will no longer be liable to Nasdaq for the payment of this fee, *provided, however,* that if Amex lists or trades QQQ in any market in a Foreign region for at least one day in any quarter, Amex will remain liable to pay the entire quarterly fee to Nasdaq for such listing. Amex may also be liable to Nasdaq for the payment of another $500K annual fee, in addition to the $500K annual fee payable when QQQ becomes registered to trade on any market in a Foreign region, for the right to trade QQQ internationally. If Amex is trading QQQ in any market in a Foreign region, Amex will be required to pay this second $500K annual fee to Nasdaq if, at the total annual fee of $5 million for the right to trade QQQ Domestically and in any market in a Foreign region, Nasdaq is still able to make the certification pursuant to Section 2.03.4.1 (b)(i) or b(ii) above, as applicable.

* Confidential Treatment has been requested for the redacted portions. The confidential redacted portions have been filed separately with the Securities and Exchange Commission.

Section 2.03.5 ***Payment Procedures.*** Nasdaq will invoice Amex quarterly for any fees that Amex owes Nasdaq for the right to list, trade or market ETFs and QQQ in accordance with the procedures set forth in Article 13 herein.

Section 2.03.6 ***Reasonable Arrangements for Listing QQQ Internationally and Provisions for the Payment of Costs.*** Amex shall pay all fees and expenses necessary to obtain the right to list QQQ in any Foreign region. In addition, Amex shall reimburse Nasdaq for all reasonable expenses incurred by Nasdaq in connection with such listing, including, but not limited to, Nasdaq's reasonable outside legal and other professional fees related to the filing by Nasdaq of all related applications and the obtaining by Nasdaq of all licenses, permits, consents and approvals required by applicable Governmental Entities. Nasdaq will use its best commercially reasonable efforts to facilitate the Amex's right to list QQQ in any Foreign region within a reasonable time frame. Amex will also be responsible for the payment of any incremental fees or expenses, including reasonable outside incremental legal and other professional fees, incurred by Nasdaq in addition to the normal fees and related expenses required to obtain permission to list QQQ in any Foreign region, if Nasdaq incurred such additional fees or expenses due to Amex's failure to provide reasonable advance notice to Nasdaq of Amex's intent to obtain the right to list QQQ in that region. If Amex reimburses Nasdaq for such costs, and then begins listing QQQ in such Foreign region, Amex will then have the exclusive right to list QQQ in that Foreign region for a period of ****[*] from the date that Amex reimbursed Nasdaq for the costs that Nasdaq incurred in obtaining Amex's right to list QQQ in that region. If, however, Amex reimburses Nasdaq for such costs, and then refrains from listing or trading QQQ in such Foreign region, Amex will then have the exclusive right to list QQQ in that Foreign region for a period of ****[*] from the date that Amex reimbursed Nasdaq for the costs that Nasdaq incurred in obtaining Amex's right to list QQQ in that Foreign region. Upon the expiration of this ****[*] period, Nasdaq may then: (i) reimburse Amex for the fees and expenses paid by Amex to obtain the right to list QQQ in that Foreign region; and (ii) begin listing QQQ in that region. If Nasdaq obtains the right to list QQQ in such Foreign region subsequent to any exclusivity period for Amex, then the parties will equally share the costs incurred by both parties for the right to list QQQ in that Foreign region.

Section 2.04 ***Globe Logo.*** NASD and Amex will assign all of their respective rights, interests, and all related goodwill in the Globe logo, and any and all works based upon, derived from, or incorporating the Globe logo, as well as all causes of actions, claims and demands or other rights for, or arising from any infringement, including past infringement, of the Globe logo (the *Logo*) to Nasdaq at no cost to Nasdaq. A drawing of the Logo is attached hereto as Exhibit F. Nasdaq will have no obligation to: (i) reimburse NASD and Amex for any costs that NASD and Amex incurred in the development, use, and assignment of this Logo; or (ii) continue to allow NASD and Amex to use the Logo once this assignment has become effective. This assignment will become effective for public dissemination no later than December 31, 2001 and is made with no representations or warranties except that neither Amex nor NASD have previously granted any license to or ownership of the Logo to any other entity. Each of NASD and Amex will use all commercially reasonable efforts to: (i) stop its current use of the Logo; and (ii) prevent the continued or future use of the Logo in any of their respective materials after the effective date of its assignment, *provided, however,* that each of NASD and Amex individually agree that it will: (a) promptly notify Nasdaq of any current use of the Globe Logo that it will be unable to discontinue as of the effective date of this assignment; and (ii) undertake all commercially reasonable efforts to cease such use of the Logo as soon as possible. If: (i) Nasdaq becomes aware of any continuing use of the Logo by NASD or Amex; and (ii) NASD or Amex has failed to notify Nasdaq of such continuing use, then Nasdaq will notify NASD or Amex of such use and provide NASD or Amex with a reasonable opportunity to cure its infringing use of the Logo. The Parties further agree that all disputes arising from NASD's or Amex's failure or inability to terminate its use of the Logo as of the effective date of such assignment will first be referred to the Parties' Program Executives.

* Confidential Treatment has been requested for the redacted portions. The confidential redacted portions have been filed separately with the Securities and Exchange Commission.

Section 2.05 ***Advertising.*** Nasdaq will include the American Stock Exchange corporate identity in all of Nasdaq's domestic internet, print and television advertising and collateral material for QQQ beginning on January 1, 2002; the American Stock Exchange corporate identity shall be featured prominently and all elements of the logotype should be clearly legible and in conformance with the guidelines for reproduction of the American Stock Exchange logo. The American Stock Exchange name will not appear in a manner that looks like, or is similar to, the appearance of NASD-required disclosure language in the advertisement, nor will the American Stock Exchange name be positioned in close proximity to the NASD-required disclosure language. In advance of finalization and publication, Nasdaq will review with Amex all advertisements in the mediums itemized above (with "Greek Text" or its substantive equivalent replacing any creative material that Nasdaq reasonably determines is inappropriate to share with Amex) that will use the Amex name, and will consult Amex on ideas or concerns that they may have about alternate ways to display the Amex name. Nasdaq will continue to reference the American Stock Exchange in its advertising for as long as Amex's license to trade QQQ remains in effect and Amex pays all licensing fees that are due in accordance with the provisions of Section 2.03.4 herein. Nasdaq further agrees that when referencing an Amex-listed ETF in its domestic print advertising, domestic direct marketing materials, or on its domestic websites it will indicate that the Amex is a trading venue for the particular ETF; unless, however, Nasdaq reasonably determines in good-faith that such information is irrelevant. Amex agrees that it will include a reference to Nasdaq, Nasdaq 100 or QQQ in all of Amex's Family Index Share advertising. In advance of finalization and publication, Amex will review with Nasdaq all such Family Index Share Advertising (with "Greek Text" or its substantive equivalent replacing any creative material that Amex reasonably determines is inappropriate to share with Nasdaq) that will use the Nasdaq name, and will consult Nasdaq on ideas or concerns that they may have about alternate ways to display the Nasdaq name.

Section 2.06 ***Approvals.*** Each Party agrees to obtain and maintain all necessary licenses, permits or government approvals as may be necessary for it to perform under this Agreement. Each Party further agrees to cooperate with and assist the other Parties in obtaining and maintaining any such approvals as applicable, to the extent reasonably possible, if: (i) requested to do so by another Party in writing and (ii) without limiting the requesting Party's obligations under this Agreement.

ARTICLE 13

Financial Procedures

Article 13 is amended by deleting all of its provisions and substituting the following:

Section 13.01 ***Payment Procedures.*** Amex will provide Nasdaq with monthly reports ****[*]. Nasdaq will review these reports and then invoice Amex quarterly for fees due from Amex for its right to list, trade and market QQQ and ETFs pursuant to the provisions of Article 2 herein. Any additional costs or expenses incurred by the Parties in fulfilling their obligations under this Agreement may be allocated among the Parties as they may mutually agree upon. The format of all reports and invoices will be mutually agreed upon by the Parties. Each Party will: (i) review each report or invoice upon its receipt of such document in order to verify that it contains the correct information and is in the format agreed upon by the Parties; and (ii) pay all invoices not then in dispute within thirty (30) days of its receipt of such invoice. If any Party disputes the amount of any invoice or the accuracy of any report, it will notify the Party that sent such document of its disagreement within five (5) Business Days of its receipt of such document. The Parties' Program Executives will then meet in an attempt to resolve such discrepancies. If the Parties' Program Executives are unable to resolve any such disagreement within five (5) Business Days of being notified of the Dispute, then the Party that received the document will pay all amounts not then in dispute. The Parties will then resolve any remaining disagreements through the procedures set forth in Article 12 herein. None of the Parties will have a right of set-off for amounts due or alleged to be due under the terms of this Agreement. All invoices may be paid by electronic funds transfer.

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Section 13.02 ***Overdue Invoices.*** Each Party may charge the other Parties Interest on any undisputed invoices that the other Parties failed to pay within forty-five (45) days of their receipt of such invoice. This Interest may be assessed monthly.

Section 13.03 ***Additional Payments.*** Nasdaq agrees to pay Amex $500K in two equal installments of $250K, with the first installment to be paid by the end of the fourth quarter 2002 and the second installment to be paid by the end of the first quarter 2003.

IN WITNESS WHEREOF, each of the Participants has caused this Agreement to be executed on its behalf by its officers thereunto duly authorized on the day and year first above written.

American Stock Exchange, LLC
(*Amex*)

By: /s/ MICHAEL J. RYAN, JR.

Name: Michael J. Ryan, Jr.
Title: EVP and General Counsel

National Association of Securities Dealers, Inc. (*NASD*)

By: /s/ ROBERT R. GLAUBER

Name: Robert R. Glauber
Title: Chairman and CEO

The Nasdaq Stock Market, Inc. (*Nasdaq*)

By: /s/ RICHARD G. KETCHUM

Name: Richard G. Ketchum
Title: President

Nasdaq Financial Products Services, Inc.
(*Nasdaq FPS*)

By: /s/ JOHN L. JACOBS

Name: John L. Jacobs
Title: Chief Executive Officer

American Stock Exchange
Membership Corporation (*Old Amex*)

By: /s/ ANTHONY J. BOGLIOLI

Name: Anthony J. Boglioli
Title: Chairman

American Stock Exchange
Membership Corporation (*Old Amex*)

By: /s/ ROBERT M. GORDON

Name: Robert M. Gordon
Title: Director

American Stock Exchange
Membership Corporation (*Old Amex*)

By: /s/ JOSEPH PALMIERI

American Stock Exchange
Membership Corporation (*Old Amex*)

By: /s/ JOHN T. McGOWEN

Name: Joseph Palmieri
Title: Director

Name: John T. McGowen
Title: Director

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Exhibit 12.1

The Nasdaq Stock Market
Computation in Support of Ratio of Earnings to Fixed Charges
(Dollars in Thousands)
Unaudited

	Years ended December 31,				
	2002	2001	2000	1999	1998
Pre-tax income from continuing operations (less minority interest)	71,697	73,091	44,955*	144,570	60,965
Add: Fixed Charges	20,060	10,821	2,778	2,143	1,962
Pre-tax earnings before fixed charges	91,757	83,912	47,733	146,713	62,927
Fixed Charges:					
Interest	19,590	10,643	2,778	2,143	1,962
Other	470	178	—	—	—
Total Fixed Charges	20,060	10,821	2,778	2,143	1,962
Preferred Stock Dividend Requirements	—	—	—	—	—
Total Combined Fixed Charges and Preferred Dividends	20,060	10,821	2,778	2,143	1,962
Ratio of Earnings to Fixed Charges	4.57	7.75	17.18	68.46	32.07
Ratio of Earnings to Fixed Charges & Preferred Stock Dividends	4.57	7.75	17.18	68.46	32.07

* Adjusted for cumulative effect in change in accounting principle of $169,046.

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Exhibit 21.1

SUBSIDIARIES

1. Nasdaq Financial Products Services, Inc (incorporated in Delaware)
2. Nasdaq International Marketing Initiatives, Inc (incorporated in Delaware)
3. Nasdaq Deutschland A.G. (incorporated in Germany)
4. Quadsan Enterprises, Inc. (incorporated in Delaware)
5. Nasdaq Canada Inc. (incorporated in Canada)
6. Nasdaq Global Technology Ltd. (incorporated in Bermuda)
7. Nasdaq Global Holdings (incorporated in Switzerland)
8. IndigoMarkets India Private Limited (incorporated in India)
9. IndigoMarkets Ltd. (incorporated in Bermuda)
10. Nasdaq Europe Planning Company Limited (incorporated in United Kingdom)
11. Nasdaq Europe Limited (incorporated in United Kingdom)
12. Nasdaq Europe S.A./N.V. (incorporated in Belgium)
13. Nasdaq LTDA (incorporated in Brazil)
14. Nasdaq International Limited (incorporated in United Kingdom)
15. The Nasdaq Stock Market Educational Foundation, Inc. (organized in Delaware)
16. Nasdaq LIFFE Markets, LLC (organized in Delaware)
17. Nasdaq Insurance Agency LLC (organized in Delware)

QuickLinks

Exhibit 21.1

SUBSIDIARIES

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EXHIBIT 23.1

CONSENT OF INDEPENDENT AUDITORS

We consent to the inclusion in this Annual Report (Form 10-K) of The Nasdaq Stock Market, Inc. (the "Company") of our report dated March 10, 2003, included in the 2002 Annual Report to Shareholders of The Nasdaq Stock Market, Inc.

We also consent to the incorporation by reference in the Registration Statements and Post Effective Amendments of the Company on Form S-8 Nos. 333-70992, 333-72852, and 333-76064 and in the related Reoffer Prospectuses of our report dated March 10, 2003 with respect to the consolidated financial statements included in this Annual Report (Form 10-K) for the year ended December 31, 2002.

Ernst & Young LLP

New York, New York
March 27, 2003

QuickLinks

EXHIBIT 23.1

CONSENT OF INDEPENDENT AUDITORS

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Exhibit 24.1

POWER OF ATTORNEY
ANNUAL REPORT ON FORM 10-K
THE NASDAQ STOCK MARKET, INC.

Know all men by these presents, that the undersigned, a director of The Nasdaq Stock Market, Inc., a Delaware corporation, hereby constitutes and appoints Edward S. Knight and Joan C. Conley, and each of them acting individually, the undersigned's true and lawful attorneys-in-fact and agents, each with full power of substitution and resubstitution, for him and in his name, place, and stead, in any and all capacities to:

(1) execute for and on behalf of the undersigned, an Annual Report on Form 10-K of The Nasdaq Stock Market, Inc. for the fiscal year ended December 31, 2002, including any and all amendments and additions thereto (collectively, the "Annual Report") in accordance with the Securities Exchange Act of 1934, as amended, and the rules thereunder;

(2) do and perform any and all acts for and on behalf of the undersigned which may be necessary or desirable to file, or cause to be filed, the Annual Report with all exhibits thereto (including this Power of Attorney), and other documents in connection therewith, with the United States Securities and Exchange Commission; and

(3) take any other action or any type whatsoever in connection with the foregoing which, in the opinion of such attorneys-in-fact, may be of benefit to, in the best interest of, or legally required by, the undersigned, it being understood that the documents executed by such attorneys-in-fact on behalf of the undersigned pursuant to this Power of Attorney shall be in such form and shall contain such terms and conditions as such attorneys-in-fact may approve in such attorneys-in-fact's discretion.

The undersigned hereby grants to each attorney-in-fact full power and authority to do and perform any and every act and thing whatsoever requisite, necessary or proper to be done in the exercise of any of the rights and powers herein granted, as fully to all intents and purposes as the undersigned might or could do if personally present, with full power of substitution or revocation, hereby ratifying and confirming all that such attorneys-in-fact, or such attorneys-in-fact's substitute or substitutes, shall lawfully do or cause to be done by virtue of this Power of Attorney and the rights and powers herein granted.

IN WITNESS WHEREOF, the undersigned has caused this Power of Attorney to be executed as of March 28, 2003.

/s/ H. Furlong Baldwin

Signature

POWER OF ATTORNEY
ANNUAL REPORT ON FORM 10-K
THE NASDAQ STOCK MARKET, INC.

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IN WITNESS WHEREOF, the undersigned has caused this Power of Attorney to be executed as of March 25, 2003.

/s/ Frank E. Baxter

Signature

POWER OF ATTORNEY
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IN WITNESS WHEREOF, the undersigned has caused this Power of Attorney to be executed as of March 26, 2003.

/s/ Michael Casey

Signature

POWER OF ATTORNEY
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THE NASDAQ STOCK MARKET, INC.

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IN WITNESS WHEREOF, the undersigned has caused this Power of Attorney to be executed as of March 25, 2003.

/s/ Michael W. Clark

Signature

POWER OF ATTORNEY
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IN WITNESS WHEREOF, the undersigned has caused this Power of Attorney to be executed as of March 28, 2003.

/s/ Bill Cohen

Signature

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ANNUAL REPORT ON FORM 10-K
THE NASDAQ STOCK MARKET, INC.

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IN WITNESS WHEREOF, the undersigned has caused this Power of Attorney to be executed as of March 26, 2003.

/s/ F. Warren Hellman

Signature

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THE NASDAQ STOCK MARKET, INC.

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(3) take any other action or any type whatsoever in connection with the foregoing which, in the opinion of such attorneys-in-fact, may be of benefit to, in the best interest of, or legally required by, the undersigned, it being understood that the documents executed by such attorneys-in-fact on behalf of the undersigned pursuant to this Power of Attorney shall be in such form and shall contain such terms and conditions as such attorneys-in-fact may approve in such attorneys-in-fact's discretion.

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IN WITNESS WHEREOF, the undersigned has caused this Power of Attorney to be executed as of March 25, 2003.

/s/ John D. Markese

Signature

POWER OF ATTORNEY
ANNUAL REPORT ON FORM 10-K
THE NASDAQ STOCK MARKET, INC.

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IN WITNESS WHEREOF, the undersigned has caused this Power of Attorney to be executed as of March 27, 2003.

/s/ Vikram Pandit

Signature

POWER OF ATTORNEY
ANNUAL REPORT ON FORM 10-K
THE NASDAQ STOCK MARKET, INC.

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IN WITNESS WHEREOF, the undersigned has caused this Power of Attorney to be executed as of March 28, 2003.

/s/ K. Paternak

Signature

POWER OF ATTORNEY
ANNUAL REPORT ON FORM 10-K
THE NASDAQ STOCK MARKET, INC.

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IN WITNESS WHEREOF, the undersigned has caused this Power of Attorney to be executed as of March 28, 2003.

/s/ David Pottruck

Signature

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IN WITNESS WHEREOF, the undersigned has caused this Power of Attorney to be executed as of March 25, 2003.

/s/ Arthur Rock

Signature

POWER OF ATTORNEY
ANNUAL REPORT ON FORM 10-K
THE NASDAQ STOCK MARKET, INC.

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IN WITNESS WHEREOF, the undersigned has caused this Power of Attorney to be executed as of March 28, 2003.

/s/ R.C. Romano

Signature

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IN WITNESS WHEREOF, the undersigned has caused this Power of Attorney to be executed as of March 28, 2003.

/s/ Arvind Sodhani

Signature

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IN WITNESS WHEREOF, the undersigned has caused this Power of Attorney to be executed as of March 28, 2003.

/s/ Martin Sorrell

Signature

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IN WITNESS WHEREOF, the undersigned has caused this Power of Attorney to be executed as of March 31, 2003.

/s/ Thomas G. Stemberg

Signature

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ANNUAL REPORT ON FORM 10-K
THE NASDAQ STOCK MARKET, INC.

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/s/ Thomas W. Weisel

Signature

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/s/ Mary Jo White

Signature

QuickLinks -- Click here to rapidly navigate through this document

Exhibit 99.1

**Certification of CEO and CFO Pursuant to
18 U.S.C. Section 1350,
as Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report on Form 10-K of The Nasdaq Stock Market, Inc. (the "Company") for the period ending December 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Hardwick Simmons, as Chairman and Chief Executive Officer of the Company, and David P. Warren, as Executive Vice President and Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ HARDWICK SIMMONS

Name: Hardwick Simmons
Title: Chairman and Chief Executive Officer
Date: March 28, 2003

/s/ DAVID P. WARREN

Name: David P. Warren
Title: Executive Vice President and Chief Financial Officer
Date: March 28, 2003

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

This certification accompanies the Report pursuant to § 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by the Company for purposes of §18 of the Securities Exchange Act of 1934, as amended.

QuickLinks