NASDAQ STOCK MARKET INC
Form 424B5
February 10, 2006

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**Filed Pursuant to Rule 424(b)(5)**

**Registration No. 333-131373**

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

**PROSPECTUS SUPPLEMENT**

(To prospectus dated January 30, 2006)

# 13,895,229 Shares

## Common Stock

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

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

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

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

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

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

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

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

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

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

**Thomas Weisel Partners LLC**

**Citigroup**

**Friedman Billings Ramsey**

**Keefe, Bruyette & Woods**

**Sandler O Neill & Partners, L.P.**

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

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### Prospectus Supplement



### Prospectus



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

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**About This Prospectus Supplement and the Accompanying Prospectus**

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

**Trademarks**

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

**Forward Looking Statements**

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

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

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

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

- government and industry regulation; or

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

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

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

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## PROSPECTUS SUPPLEMENT SUMMARY

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

### Overview

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

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

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

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

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

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

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

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

**INET Acquisition and Integration**

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

Key benefits that we expect from the INET acquisition include:

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

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

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

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

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

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

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

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

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

**Cost Reductions**

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

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

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

**Our Competitive Strengths**

We believe our principal competitive strengths include:

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

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

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

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

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

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

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

**Our Growth Strategy**

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

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

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

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

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

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

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

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

- our acquisition of Shareholder.com, a firm specializing in shareholder communications and investor relations intelligence services;
- our acquisition of Carpenter Moore Insurance Services, Inc., an insurance brokerage firm specializing in management liability; and
- entering into a joint venture with Reuters to form Independent Research Network, which was formed to aggregate multiple, independent research providers to procure and distribute equity research on behalf of under-covered companies to increase the market s understanding of a company s fundamental prospects.

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

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

**Exchange Registration**

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

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

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

**Recent Developments**

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

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

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

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

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

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

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

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

**Corporate Information**

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

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## THE OFFERING

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

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

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

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

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

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

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## SUMMARY HISTORICAL CONSOLIDATED FINANCIAL DATA

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

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

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

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

*(footnotes on following page)*

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

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

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

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

(2)

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

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

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

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

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

(7) Includes continuing and discontinued operations.

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

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

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

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

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## RISK FACTORS

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

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

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

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

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

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

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

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

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

***Our high leverage limits our financial flexibility.***

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

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

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

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

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

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

The markets in which we compete are characterized by rapidly changing technology, evolving industry standards, frequent enhancements to existing services and products, the introduction of new services and products and changing customer demands. If the INET platform fails to work as expected, our business would be negatively affected. In addition, our business, financial condition and operating results may be adversely affected if we cannot successfully develop, introduce, or market new services and products or if we need to adopt costly and customized technology for these services and products. In addition, our failure to anticipate or respond adequately to changes in technology and customer preferences, or any significant delays in other product development efforts, could have a material adverse effect on our business, financial condition and operating results.

***We must adapt to significant competition in our listing business.***

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

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

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

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

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

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

***Delistings may have an adverse effect on our revenues.***

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

***A decrease in trading volume will decrease our trading revenues.***

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

***We may experience fluctuations in our operating results.***

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

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

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***We must control our costs to remain profitable.***

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

***Regulatory changes and changes in market structure could have a material adverse effect on our business.***

We operate in a highly regulated industry. In recent years, the securities trading industry and, in particular, the securities markets, have been subject to significant regulatory changes. Moreover, the securities markets have been the subject of increasing governmental and public scrutiny in response to a number of recent developments and inquiries. Any of these factors or events may result in future regulatory or other changes, although we cannot predict the nature of these changes or their impact on our business at this time. Our customers also operate in a highly regulated industry. The SEC and other regulatory authorities could impose regulatory changes that could impact the ability of our customers to use The Nasdaq Market Center or could adversely affect The Nasdaq Stock Market. The loss of a significant number of customers or a reduction in trading activity on The Nasdaq Stock Market as a result of such changes could have a material adverse effect on our business, financial condition and operating results.

***We are subject to extensive regulation that may harm our ability to compete with less regulated entities.***

Under current federal securities laws, changes in our rules and operations, including our pricing structure, must be reviewed, and in many cases explicitly approved by the SEC. The SEC may approve, disapprove, or recommend changes to proposals that we submit. 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 our business, financial condition and operating results. We must compete not only with ECNs that are not subject to the same SEC approval process, but also with other exchanges that have lower regulation and surveillance costs than us. There is a risk that trading will shift to exchanges that charge lower fees because, among other reasons, they spend significantly less on regulation services.

In addition, Brut and some subsidiaries of INET are broker-dealers. Broker-dealers are subject to regulations that did not apply to us prior to the Brut acquisition. Any failure to comply with these broker-dealer

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regulations could have a material effect on the operation of our business, financial condition and operating results. Brut is currently the subject of an investigation by the NASD. It is premature to anticipate any consequences from such investigation. However, an adverse outcome may result in the imposition of fines or other sanctions on Brut.

***We have self-regulatory organization obligations and also operate a for-profit business, and these two roles may create conflicts of interest.***

We have obligations to regulate and monitor activities on The Nasdaq Stock Market and ensure compliance with applicable law and the rules of our market by market participants and Nasdaq-listed companies. The SEC staff has expressed concern about potential conflicts of interest of for-profit markets performing the regulatory functions of a self-regulatory organization. While we outsource the majority of our market regulation functions to NASD, we do perform regulatory functions related to our listed companies and our market. In addition, as part of our application for exchange registration, we have agreed that 20% of the directors of our exchange subsidiary will be elected by members of the Exchange rather than the equity holders of our subsidiary. Any failure by us to diligently and fairly regulate our market or to otherwise fulfill our regulatory obligations could significantly harm our reputation, prompt SEC scrutiny and adversely affect our business and reputation.

***Failure to protect our intellectual property rights could harm our brand-building efforts and ability to compete effectively.***

To protect our intellectual property rights, we rely on a combination of trademark laws, copyright laws, patent laws, trade secret protection, confidentiality agreements and other contractual arrangements with our affiliates, clients, strategic partners and others. The protective steps that we have taken may be inadequate to deter misappropriation of our proprietary information. We may be unable to detect the unauthorized use of, or take appropriate steps to enforce, our intellectual property rights. We have registered, or applied to register, our trademarks in the United States and in over 40 foreign jurisdictions and have 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 we offer or intend to offer our services. Failure to protect our intellectual property adequately could harm our brand and affect our ability to compete effectively. Further, defending our intellectual property rights could result in the expenditure of significant financial and managerial resources, which could adversely affect our business, financial condition and operating results.

***Failure to attract and retain key personnel may adversely affect our ability to conduct our business.***

Our future success depends, in large part, upon our key employees who execute our business strategy and identify and pursue strategic opportunities and initiatives. In particular, we are highly dependent on the continued services of Robert Greifeld, our President and Chief Executive Officer, and other executive officers and key employees who possess extensive financial markets knowledge and technology skills. We do not have employment agreements with some of our executive officers, which would prevent them from leaving and competing with us. We do not maintain key person life insurance policies on any of our executive officers, managers, key employees or technical personnel. The loss of the services of these persons for any reason, as well as any negative market or industry perception arising from that loss, could have a material adverse effect on our business. We may incur costs to replace key employees that leave, and our ability to execute our business model could be impaired if we cannot replace departing employees in a timely manner.

***We are subject to risks relating to litigation and potential securities laws liability.***

Many aspects of our business potentially involve substantial liability risks. While we enjoy immunity from private suits for self-regulatory organization activities, we and our broker-dealer affiliates 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 regulatory 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 we entered into an unauthorized transaction or that we provided materially false or misleading statements in connection with a securities transaction. As we intend to defend any such litigation actively, significant legal expenses could be incurred. An adverse resolution of any future lawsuit or claim against us or our affiliates could have an adverse effect on our business, financial condition and operating results.

In addition, we are subject to oversight by the SEC. The SEC regularly examines us and our broker-dealer affiliates for compliance with our obligations under the securities laws. In the case of non-compliance with our obligations under those laws, we or our broker-dealer affiliates could be subject to investigation and judicial or administrative proceedings that may result in substantial penalties.

***We are in the process of becoming a holding company that will depend on cash flow from our subsidiaries to meet our obligations.***

At our 2005 annual meeting of stockholders, our voting securityholders approved our reorganization into a new holding company structure through the transfer of all or substantially all of our assets and liabilities to one or more of our subsidiaries. This restructuring facilitated SEC approval of our registration as a national securities exchange. Once we effect this restructuring, we will be a holding company with no material assets other than the equity interests of our subsidiaries. Accordingly, all our operations will be conducted by our subsidiaries. As a holding company, we will require dividends and other payments from our subsidiaries to meet cash requirements or to pay dividends. If our subsidiaries are unable to pay us dividends and make other payments to us when needed, we will be unable to pay dividends or satisfy our obligations.

***NASD will continue to maintain voting control over us until we meet SEC conditions to operate as an exchange and may have interests that are different from yours and, therefore, may make decisions that are adverse to your interests.***

The SEC requires that NASD retain greater than 50% of the voting control over us until we operate as an exchange and we no longer rely on NASD s SRO license to operate The Nasdaq Stock Market. NASD maintains voting control through the single outstanding share of our Series D Preferred Stock. Therefore, NASD will continue to retain voting control over us until we meet SEC conditions to operate as an exchange. As a result, until such time, NASD will continue to have the ability, if it so elects, to dictate the outcome of matters brought to a vote of our stockholders. NASD may have interests that conflict with your interests as a holder of our common stock. NASD s voting control may delay or prevent a change in control, impede a merger, consolidation, takeover, or other business combination involving us or discourage a potential acquirer from making a tender offer or otherwise attempting to obtain control of us or result in actions that may be opposed by other stockholders, including those who purchase common stock in this offering.

***The SEC s approval of our application to operate a national securities exchange contains conditions that must be satisfied before we implement the order.***

On January 13, 2006, the SEC approved our application to register a newly formed limited liability company, The NASDAQ Stock Market LLC, as an exchange. The SEC s approval order contains several conditions that must be satisfied before we can operate as an exchange and the satisfaction of certain of these conditions are subject to SEC approval or the actions of third parties. The primary condition imposed by the SEC requires us to become a participant in national market system plans. We will need to pay amounts, which have not yet been determined, but which may be significant, in order to join these plans. Additionally, we may need to adjust our business practices to join these plans in a manner that will impose costs on us.

Other conditions require NASD to offer a facility for disseminating over-the-counter quotations and collecting over-the-counter trade reports, for non-Nasdaq-listed securities. Satisfaction of this condition is dependent on, among other things, NASD s ability to obtain the approval of the participants in certain of the national market system plans for this facility. We continue to rely on NASD s SRO license to operate The

Nasdaq Stock Market and all actions taken by us pursuant to authority delegated by NASD are subject to review, ratification or rejection by NASD s Board of Governors. We will not be able to experience the benefits related to exchange registration until we satisfy the conditions.

**Risks Associated With Purchasing Our Common Stock in This Offering**

***Volatility in our stock price could adversely affect our stockholders.***

The market price of our common stock is likely to be volatile. Broad market and industry factors may adversely affect the market price of our common stock, regardless of our actual operating performance. Factors that could cause fluctuations in our stock price may include, among other things:

- actual or anticipated variations in our quarterly operating results;
- changes in financial estimates by us or by any securities analysts who might cover our stock;
- conditions or trends in our industry, including trading volumes, regulatory changes or changes in the securities marketplace, including with respect to the proposed NYSE/Archipelago merger;
- announcements by us or our competitors of significant acquisitions, strategic partnerships or divestitures;
- announcements of investigations or regulatory scrutiny of our operations or lawsuits filed against us;
- additions or departures of key personnel; and
- sales of our common stock, including sales of our common stock by our directors and officers or our strategic investors.

***The market price of our common stock could be negatively affected by sales of substantial amounts of our common stock in the public markets.***

Sales by our stockholders of a substantial number of shares of our common stock in the public markets following this offering, or the perception that these sales might occur, could cause the market price of our common stock to decline or could impair our ability to raise capital through a future sale of, or pay for acquisitions using, our equity securities. As of December 31, 2005, there were 83,148,909 shares of our common stock outstanding. All of our outstanding shares, including the shares of our common stock sold in this offering, will be freely transferable, except for any shares held by our affiliates, as that term is defined in Rule 144 under the Securities Act of 1933 and 14,201,625 shares of common stock acquired or able to be acquired from NASD upon exercise of warrants issued by NASD and not being sold in this offering, or the Warrant Shares. The Warrant Shares are not currently registered under the Securities Act and are transferable only to the extent permitted by securities laws, such as Rule 144. We plan to register the remaining Warrant Shares with the SEC no later than 90 days after the closing of this offering. When this registration statement is effective, holders of these Warrant Shares will be able to freely transfer these shares. See Relationship with

NASD Agreements and Arrangements with NASD Warrants and the Voting Trust Agreement. If any of such warrants expire without being exercised, then we expect NASD will then be able to sell any such underlying shares pursuant to such registration. To the extent the overallotment option is not exercised by the underwriters, NASD may hold up to 1,042,142 shares that will be freely transferable, subject to the above.

The number of freely transferable shares of our common stock will increase upon any exercise of outstanding options pursuant to our stock compensation and stock award plan for our employees. There were 5,316,755 options exercisable as of December 31, 2005 at a weighted average exercise price of $10.30. Additionally, the number of shares of our common stock outstanding will also increase upon any conversion of our convertible notes held by SLP and Hellman & Friedman or their respective affiliates, which are convertible at a conversion price of $14.50 per share into approximately 30.7 million shares of our common stock, or any exercise of our warrants held by SLP and Hellman & Friedman or their respective affiliates, which are exercisable at a strike price of $14.50 per share into 5.0 million shares of our common stock. The notes and the shares underlying the notes and the warrants are not transferable without our consent until September 8, 2006. In addition, the notes and the shares underlying the notes and the warrants may only be sold pursuant to a registration statement or an exemption from registration. We have granted SLP and Hellman & Friedman and their affiliates demand and piggyback registration rights with respect to the convertible notes and the shares of our common stock underlying those notes and warrants. These shares become entitled to the benefits of such registration rights as early as September 2006. Upon the effectiveness of such a registration, all shares or notes covered by a registration statement will be freely transferable.

***Provisions of our certificate of incorporation and approved exchange rules, including provisions included to address SEC concerns, and Delaware law could delay or prevent a change in control of our company and entrench current management.***

Our organizational documents place restrictions on the voting rights of certain stockholders. Our certificate of incorporation limits the voting rights of persons (either alone or with related parties) owning more than 5% of the then outstanding votes entitled to be cast on any matter, other than NASD or any other person as may be approved by our board of directors prior to the time such person owns more than 5% of the then outstanding votes entitled to be cast on any matter. The SEC has proposed rules that will impose voting and ownership limitations on broker-dealers of 20%, but not require other voting or ownership limitations. We have not determined at this time if we will seek to raise our 5% voting limitation if the SEC adopts the proposed rule. Any change to the 5% voting limitation would require SEC approval.

In response to the SEC s concern about a concentration of our ownership, our approved exchange rules include a rule prohibiting any Nasdaq member or any person associated with a Nasdaq member beneficially owning more than 20% of our outstanding voting interests. SEC consent would be required before any investor could obtain more than a 20% voting interest in us.

In addition, our organizational documents contain provisions that may be deemed to have an anti-takeover effect and may delay, deter or prevent a change of control of us, such as a tender offer or takeover proposal that might result in a premium over the market price for our common stock. Additionally, certain of these provisions make it more difficult to bring about a change in the composition of our board of directors, which could result in entrenchment of current management.

In addition, our certificate of incorporation and by-laws:

- require supermajority stockholder approval to remove directors;
- do not permit stockholders to act by written consent or to call special meetings;
- require certain advance notice for director nominations and actions to be taken at annual meetings;
- require supermajority stockholder approval with respect to certain amendments to our certificate of incorporation and constitution (including in respect of the provisions set forth above); and

- authorize the issuance of undesignated preferred stock, or blank check preferred stock, that could be issued by our board of directors without stockholder approval.

Section 203 of the Delaware General Corporation Law, or DGCL, imposes restrictions on mergers and other business combinations between us and any holder of 15% or more (or, in some cases, a holder who previously held 15% or more) of our common stock. In general, Delaware law prohibits a publicly held corporation from engaging in a business combination with an interested stockholder for three years after the stockholder becomes an interested stockholder, unless the corporation s board of directors and stockholders approve the business combination in a prescribed manner.

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## USE OF PROCEEDS

We plan to use the proceeds of this offering to redeem our Series C preferred stock and for general corporate purposes, including acquisitions. We will not receive any proceeds from the sale of shares by the selling stockholders, including NASD.

## PRICE AND RELATED INFORMATION CONCERNING SHARES

Our common stock has been listed on the Nasdaq National Market since February 9, 2005, under the ticker symbol NDAQ. From July 1, 2002 through February 8, 2005, our common stock traded on the OTC Bulletin Board under the symbol NDAQ.

Before February 9, 2005, there was a limited trading market for our common stock. The following chart lists the quarterly high and low bid prices for shares of our common stock for the first quarter of 2006 through February 9, 2006 and fiscal years 2005 and 2004. These prices are between dealers and do not include retail markups, markdowns or other fees and commissions and may not represent actual transactions.

| | High | Low |
|---|---|---|
| *Fiscal 2006* | | |
| First quarter (through February 9, 2006) | $ 46.75 | $ 34.83 |
| *Fiscal 2005* | | |
| Fourth quarter | $ 45.33 | $ 25.33 |
| Third quarter | 25.75 | 18.80 |
| Second quarter | 20.00 | 9.81 |
| First quarter | 11.86 | 7.60 |
| *Fiscal 2004* | | |
| Fourth quarter | $ 10.50 | $ 6.40 |
| Third quarter | 7.00 | 5.53 |
| Second quarter | 8.80 | 6.30 |
| First quarter | 12.60 | 8.55 |

As of December 31, 2005, we had approximately 1,068 holders of record of our common stock.

## DIVIDEND POLICY

You should not plan on receiving a dividend on your common stock, since our credit facility prohibits us from paying dividends. In the past, before our credit facility had been in place, it was not our policy to declare or pay cash dividends on our common stock. We intend to retain any future earnings for funding our growth and meeting our obligations.

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## CAPITALIZATION

The following table sets forth cash and cash equivalents, investments available-for-sale and our capitalization as of September 30, 2005:

on an actual basis;

as adjusted to give effect to the INET acquisition, debt incurred to finance the INET acquisition, and repayment of our $25 million senior note as if it occurred on September 30, 2005, referred to collectively as the INET Transactions; and

as adjusted to reflect the issue and sale of 7,000,000 shares of common stock by us in this offering at a public offering price of $40.00 per share, less underwriting discounts and commissions and estimated offering expenses payable by us, the cost to redeem our outstanding Series C cumulative preferred stock and an increase in cash and cash equivalents.

This table should be read together with our consolidated financial statements and related notes and our pro forma financial statements and accompanying notes thereto, which are incorporated by reference in this prospectus supplement:

| | As of September 30, 2005 | | |
|---|---|---|---|
| | Actual | As adjusted for the INET Transactions | As adjusted for the INET Transactions and sales of common stock |
| | (unaudited) (in thousands, except share and par value amounts) | | |
| Cash and cash equivalents | $ 288,764 | $ 65,921 | $ 229,156 |
| Investments available-for-sale | 225,887 | 225,887 | 225,887 |
| Total cash and investments available-for-sale | 514,651 | 291,808 | 455,043 |
| Long-term debt(1) | 467,333 | 1,192,333 | 1,192,333 |
| Mezzanine equity: | | | |
| Warrants underlying common stock, 4,962,500 warrants outstanding(2) | 10,226 | | |
| Stockholders equity: | | | |
| Common stock, $0.01 par value, 300,000,000 authorized, shares issued: 130,684,483; shares outstanding: 81,890,531(3) | 1,307 | 1,307 | 1,307 |
| Preferred stock, 30,000,000 authorized, Series C: 953,470 shares issued and outstanding(4); Series B: 1 share issued and outstanding(5) | 94,687 | 94,687 | |
| Additional paid-in capital | 363,480 | 362,444 | 540,079 |
| Common stock in treasury, at cost: 48,793,952 shares(6) | (625,021) | (631,918) | (541,618) |
| Warrants underlying common stock, 4,962,500 warrants outstanding(2) | | 10,226 | 10,226 |
| Accumulated other comprehensive loss | (815) | (815) | (815) |
| Deferred stock compensation | (2,752) | (2,752) | (2,752) |

| | | | |
|---|---|---|---|
| Common stock issuable | 4,613 | 4,613 | 4,613 |
| Retained earnings | 369,692 | 369,692 | 369,692 |
| Total stockholders equity | 205,191 | 207,484 | 380,732 |
| Total capitalization | $ 682,750 | $ 1,399,817 | $ 1,573,065 |

(1) Actual balance includes the issuance of $205 million of debt in connection with the financing of the INET acquisition. As adjusted for the INET Transactions includes borrowing of a $750 million senior term loan in connection with the financing of the INET acquisition.

(2) Reflects warrants issued in connection with financing of the INET acquisition. Upon completion of the acquisition, Nasdaq classified all of the warrants as part of stockholders equity.

(3) 88,890,531 shares, as adjusted for the sale of common stock.

(4) Actual balance includes the redemption of a portion of our Series C cumulative preferred stock for $40 million in connection with the financing of the INET acquisition.

(5) On December 20, 2005, NASD exchanged its one share of Nasdaq s Series B Preferred Stock for one newly issued share of Series D Preferred Stock, which had terms substantially similar to the terms of the Series B.

(6) 41,793,952 shares, as adjusted for the sale of common stock.

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## THE INDUSTRY

The equity exchange industry provides services, including securities listing, market information and trade execution, both in the United States and internationally.

**Acquisition Trends**

A recent wave of acquisitions, particularly in the trade execution services area, has been driven by a variety of business and regulatory factors. Broker-dealers are demanding greater efficiency in trading equity securities, new sophisticated order types and increased execution speed. At the same time, recent initiatives, including Regulation NMS, encourage a transition by all equity exchanges to electronic trading systems. Another driving factor is the focus on profitability from industry participants. As equity exchanges have demutualized and become for-profit public companies, they have focused on achieving economies of scale, improved technology and greater profitability through acquisitions. Recent acquisitions have resulted in the original entrepreneurial ECN entrants being absorbed by other players. For example, Nasdaq acquired the INET ECN in December 2005 and Brut in September 2004. The NYSE also announced plans to complete its acquisition of Archipelago. Since 2002, Archipelago merged with REDIBook ECN LLC and Instinet acquired The Island ECN Inc.

The exchange industry in Europe is also undergoing consolidation. Euronext was formed when the exchanges of Amsterdam, Brussels and Paris merged. Euronext subsequently acquired the London International Financial Futures and Options Exchange, or LIFFE, and the Portuguese exchange, Bolsa de Valores de Lisboa e Porto, or BVLP. Sweden s OMX AB operates six regional exchanges in the Baltic and Nordic regions, collectively known as the Nordic Exchange, and also licenses technology to other exchanges. Euronext, OMX AB and Deutsche Börse have pursued differing consolidation strategies in Europe, including acquisitions and the sharing of certain trading technology with other industry participants. Finally, there have been a number of attempts to purchase the London Stock Exchange, or LSE, in recent years. Most recently in December 2005, Macquarie Bank Ltd. made an offer to purchase the LSE.

**Convergence of Asset Classes**

Many of the same forces that have led to consolidation in equity trade execution services are driving changes in other asset classes, such as equity options, where large volumes in trading of commoditized products reward scale efficiencies. Two fully electronic option trading exchanges, the International Securities Exchange, or ISE, and the Boston Options Exchange, or BOX, have been established. The ISE has successfully taken market share from established floor-based players. New investments have been announced for the upgrade of historically floor-based options exchanges, and Amex s new ANTE system and the Chicago Board Option Exchange s Hybrid trading system have already been established. In other areas, including fixed income securities, foreign exchange, futures and commodities, a number of participants are jockeying to create improved trade execution platforms.

Industry participants are exploring the development of systems to trade multiple asset classes through universal platforms. Cross asset trading has the potential to lower customer costs through the standardization of the industry s technology infrastructure. Multi-asset platforms have been created and are established in Europe. While there appears to be significant efficiency savings available in bringing scale and scope advantages to trading in all types of securities, this universal platform has yet to be realized in the United States.

**Regulation NMS**

Regulation NMS, which becomes effective in stages throughout 2006, has been one of the key drivers behind the changes in execution services and market data in the United States. The most significant provisions of Regulation NMS are order protection, referred to as the best price rule, and fair access. The best price rule requires exchanges and other trading centers to establish procedures designed to prevent the execution of trades at prices inferior to protected quotations displayed by other trading centers. Many market centers have announced plans to adopt electronic trading capabilities, which Nasdaq has had in place for many years. In particular, the NYSE has announced its plans to transition to a hybrid system, which is expected to incorporate certain elements of an electronic system while retaining many elements of a traditional trading floor.

Under the best price rule, each exchange must interact with the market center offering the best price before it can execute a trade at an inferior price on its systems. We believe that Regulation NMS is likely to remove many of the delays and impediments to trading NYSE- and Amex-listed securities through Nasdaq that exist under the current trade through rule of the Intermarket Trading System.

As a result of the best price rule, market participants will route order flow to market centers with the best execution performance, including liquidity, reliability and speed. We believe that Nasdaq is well positioned to benefit from this provision of Regulation NMS, because we have long been a fully automated market and the INET acquisition provides an additional liquidity pool. This will increase the probability that Nasdaq s electronic trading system will display the best prices, and other exchanges will need to route their orders to Nasdaq s platform. We expect the best price rule will have a significant impact on the trading of securities, particularly non-Nasdaq-listed securities. We believe increased electronic trading in listed securities will result in increased average daily trading volumes as trading becomes fully automated. Additionally, unlike some of our competitors, we believe that we will not incur material operating or development costs in bringing our systems into compliance with Regulation NMS. Accordingly, we have announced plans to withdraw, subject to SEC approval, from the Intermarket Trading System upon implementation of Regulation NMS. We will rely instead upon faster private linkages with greater capacity to comply with the order protection and fair access rules.

The fair access rule requires market centers to provide fair and non-discriminatory access to quotations, establishes a limit on access fees to harmonize the pricing of quotations across different trading centers and requires all exchanges to maintain written rules that prohibit their members from displaying quotations that lock or cross automated quotations. We expect this rule will benefit Nasdaq because we already have fast and reliable automated access into all market centers and the logic which will permit compliance with locking or crossing automatic quotations. In addition, while it is yet to be determined how this rule will affect market pricing, our fees are compliant with the rule.

Regulation NMS also contains a market information rule that updates the requirements for consolidating, distributing and displaying market information. This rule amends the CTA/CQ and UTP Plans for disseminating market information to modify the formulas for allocating plan revenues and to broaden participation in plan governance. As we are an active quoting market as well as a trading market, we believe the changes in the market data revenue calculations, while difficult to predict and likely to differ across the two data plans, should have little negative impact. Finally, the sub-penny rule prohibits market participants from displaying quotations in pricing increments smaller than a penny, with exceptions for quotes and orders priced at less than $1.00 per share. However, we do not expect either of these rules to have a significant impact on Nasdaq. The best price rule and the fair access rule will apply to a small group of stocks beginning June 29, 2006, with implementation for all securities currently required by August 31, 2006. The market information rule is scheduled to apply beginning September 1, 2006, and the sub-penny pricing rule will apply beginning January 31, 2006.

**Competitive Landscape in the post-NMS Environment**

We believe we are well-positioned within the industry. We believe our existing and proven technology can easily be made compliant with Regulation NMS and does not require any material investment or change to our market structure, unlike many of our competitors. Our recent acquisition of INET complements our existing business and allows us to compete with existing market centers and new entrants.

The proposed merger between NYSE and Archipelago is causing changes to the competitive landscape. In contrast to Nasdaq, the two primary national securities exchanges, the NYSE and the Amex, currently are

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structured as mutual non-profit organizations relying on a predominantly manual market structure. Upon receipt of the necessary regulatory approvals of its merger with Archipelago, the NYSE has announced it will convert from mutual ownership to stockholder ownership. If the merger is consummated, the current seat holders will receive a majority of the shares of the new entity and accordingly may influence its governance. Also in contrast to Nasdaq, the NYSE owns and operates its regulatory group while NASD provides most regulatory services for us.

In connection with its acquisition of Archipelago s ECN, the NYSE has announced plans to transition to a hybrid system, which is expected to incorporate certain elements of an electronic system while retaining many elements of a traditional trading floor and continuing to operate Archipelago as a third trading system. We believe that our cost, speed and other advantages over the NYSE will continue even if it adopts and implements its hybrid model. Altogether, these advantages and our existing, established technology may enable us to charge more competitive fees for trading through Nasdaq systems than hybrid markets may be able to charge.

The marketplace has been further altered by the entry of new ECNs that focus primarily on the trade execution business and market participants acquisition and investment in existing ECNs or regional exchanges. For example, TradeBot is developing the Better Alternative Trading System, or BATS ECN. Citigroup recently announced its acquisition of OnTrade, Inc. from NexTrade, and Knight Capital Group, Inc. acquired Attain (Direct Edge). Citadel Derivatives Group, Citigroup, Credit Suisse, Merrill Lynch, Morgan Stanley and UBS purchased stakes in the Philadelphia Stock Exchange. Citigroup, Credit Suisse, Fidelity and Lehman Brothers invested in the Boston Stock Exchange to create a new electronic stock exchange, the Boston Equities Exchange. Additional new entrants may emerge, potentially posing a competitive threat to more established industry participants. Although most of the new entrants have limited liquidity, some possess sufficient levels of equity order volume from their other business lines, particularly those that have broker-dealer investors. Finally, there has been increased use of electronic trading systems specializing primarily in large block trades, such as LiquidNet, Pipeline Trading and Investment Technology Group s POSIT platform.

We believe that our history of operating as a for-profit organization, our established technology and our cost savings efforts will be an asset to us in meeting any future competitive challenges presented in the evolving industry. With our lean management team, we also believe we have the ability to make quick changes in strategic decisions and implement new strategies quickly in order to counter new competition.

**The Nasdaq Stock Market**

The Nasdaq Stock Market is the primary listing venue for approximately 3,200 companies and provides trade execution and market data services as well as financial products to the investing public. For each listed company, we provide a trusted, world-wide, brand name as well as a number of additional services. The executions systems of The Nasdaq Market Center encourage competition on a fully automated, fair and transparent trading platform. We further enhanced our systems by adding smart routing and order handling capabilities. Nasdaq pioneered automated trading as an efficient, transparent and flexible system and our model has been widely adopted in the United States and around the world. Our data services business includes revenue received from innovative, proprietary products, as well as revenue received from providing quotation and transaction information to the national market system plans. Nasdaq also licenses and markets Nasdaq-branded financial products and associated derivatives such as products based on the Nasdaq-100 Index, including QQQ, an exchange traded fund.

We operate our business to emphasize efficiency, flexibility and service to our customers and the investing public. We became fully demutualized in 2000-2001 to reduce conflicts between the interest of our trading participants and the decisions affecting our businesses. As part of the demutualization, NASD remained our regulator. We believe that having an established, fully independent and non-profit regulator enhances the transparency of our markets. NASD will continue as our regulator on a contract basis once we meet SEC conditions to operate as an exchange.

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Our strategy for acquisitions is to identify and acquire only those elements that are most important to our success. Facilitated by this focused approach, we integrated the key components of the Brut technology and the Brut team into Nasdaq in 2005. We started integrating INET into Nasdaq and expect to complete the integration in the fourth quarter of 2006. Also consistent with this focused approach, we acquired Carpenter Moore and Shareholder.com, to meet specific needs of our listed companies. Additionally, we entered into a joint venture with Reuters to form Independent Research Network, which will aggregate multiple, independent research providers to distribute equity research on behalf of under-covered companies. Finally, we are currently expanding beyond equity securities and will offer options routing services to customers seeking to rationalize their connections to the markets. In this case, we believe an incremental approach based on our extensive electronic network to be preferable to direct entry into the already crowded and evolving market for executions.

**The Listing Business**

The securities listing industry has remained relatively stable, in large part because of the significant regulatory overhead associated with this activity.

Nasdaq and the NYSE are the two primary listing venues for equity securities in the United States. Approximately 3,200 companies were listed on The Nasdaq Stock Market as of December 31, 2005, compared to approximately 2,500 and 650 companies listed on the NYSE and Amex, respectively. As of December 31, 2005, ArcaEx is the sole listing venue for only 10 companies. ArcaEx recently began competing for issuer listings by promoting the benefits of listing on the Pacific Exchange prior to the announcement of its plans to merge with the NYSE. While the status of ArcaEx as a listing venue following the merger is not entirely clear, published statements indicate that the combined entity may use the ArcaEx as a junior listing venue to compete for companies that have not historically qualified for listing on the NYSE.

There is substantial competition for listings from companies that are selling shares for the first time through an initial public offering, or IPO. Of the 213 IPOs on U.S. equity markets during 2005, 126, or 59%, chose to list on The Nasdaq Stock Market and they raised approximately $12.3 billion in equity capital. The remainder listed on the NYSE or other markets.

**Initial Public Offerings**

| | Year Ended December 31 | | |
|---|---|---|---|
| | **2003** | **2004** | **2005** |
| The Nasdaq Stock Market | 54 | 148 | 126 |
| NYSE | 27 | 83 | 71 |
| Amex | 3 | 10 | 16 |

There is also substantial competition among the markets to encourage companies to switch listing venues or to list on more than one venue. In 2004, Nasdaq implemented an initiative to allow NYSE-listed companies to list their stock both on The Nasdaq Stock Market and the NYSE. Since announcing this dual-listing service, several high profile companies have dual-listings on The Nasdaq Stock Market, including American Financial Group, Chicago Mercantile Exchange, Harmony Gold, Hewlett-Packard and Walgreens. Additionally, during 2005, Cadence Design Systems and Charles Schwab switched their listings to Nasdaq exclusively, after previously maintaining a dual listing on Nasdaq and the NYSE. In 2005, Sears switched its listing to Nasdaq from the NYSE as a result of its merger with Kmart. International exchanges, such as the LSE, are and are becoming more significant competitors for international listings.

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**The Market Data Business**

Nasdaq provides proprietary data to the investing public. Because our systems are electronic and inclusive in nature, we are able to provide a level of market transparency to all investors that is only available to a small segment of the investing population in a floor-based model. We also use our broad distribution network of approximately 100 market data vendors and market participants to deliver data regarding our market depth, index values, mutual fund valuation, order imbalances, market sentiment and other analytical data. We expect our data opportunities to continue to expand as we work with the industry and with investors to meet their data needs as they become more complex.

Nasdaq also serves as a central consolidator of basic real-time quote and trade data for Nasdaq securities. We act jointly with other exchanges to collect and disseminate a consolidated stream of quotation and transaction information under national market system plans approved by the SEC, the UTP and CTA/CQ plans. The 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. Some regional exchanges, such as the National Stock Exchange, have established programs to share the tape fee revenue they received under the UTP Plan with market participants that execute and/or report trades in securities through their facilities, in order to increase their share of tape fee revenue. Nasdaq also implemented a program to share the tape fee revenue it earned from the UTP Plan.

Regulation NMS will change the method for sharing market data revenues under the plans. The changes will introduce a quote component to the sharing methodology. Until the rule becomes effective, in September 2006, the revenue impact of the change is not completely predictable. Because Nasdaq is an active quoting exchange participant the impact on our Nasdaq-listed revenue should be negligible. Nasdaq also receives a share of the data revenue that is generated in non-Nasdaq-listed securities because of our quoting and trading success in those securities. Additionally, due to our electronic nature, and thus our active quoting behavior in non-Nasdaq securities, the Regulation NMS-generated change in the sharing methodology may have a positive impact on Nasdaq s share of the non-Nasdaq market data revenue. To the extent that our trading in NYSE securities increases, our share of the data revenue should also increase. Finally, to the extent we continue to succeed in trading NYSE stocks, our opportunity to provide enhanced depth and analytical data to investors on NYSE stocks will also increase. We have the opportunity to open up to the full investor population the type of data that has historically been reserved for the select few who stand on the floor.

Nasdaq s share of UTP and CTA/CQ Plan market data fees and tape fee revenue is directly tied to our share of trade executions, executed dollar volume and quote activity in Nasdaq and non-Nasdaq-listed securities. Any success in our previously discussed strategies to increase our market share will have a positive impact on our market data fees and tape fee revenue.

**Trade Execution Business**

Nasdaq competes vigorously for executions in all equity securities traded in the United States. We handle the significant majority of shares executed in Nasdaq-listed securities, are the largest single market for Amex-listed securities and represent the largest alternative in NYSE-listed securities. We compete through offering efficient, fair, highly reliable and transparent executions as well as innovative and flexible order types. As certain industry functions, such as smart order routing and order pegging, become commonplace, we compete by providing those functions at low cost due to our efficiencies in scale and scope as well as the reliability of our systems. Although we do not charge additional fees for these value-added services, we benefit by bringing additional orders into our systems for matching.

During 2005, 76.8% of the trading volume in NYSE securities occurred on the floor and 16.9% was reported to The Nasdaq Market Center. Following the acquisition of INET, we are one of the largest order flow

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providers to the floor of the NYSE. We offer certain efficiencies in our business model that have enabled us recently to increase our trading volume in NYSE-listed securities. We believe that with low internal costs, Nasdaq can offer lower and more competitive fees. Furthermore, we believe that specialist-based auction markets do not provide the same speed and execution accuracy as our electronic execution platform. The range of order types we offer all participants provides control and flexibility in handling orders, features that the NYSE does not propose to make available outside the floor community. Moreover, we believe that our cost, speed and other advantages will continue even after the adoption of the hybrid trading system, in part due to the costs and risks associated with developing and maintaining the hybrid. Altogether, these advantages may enable us to charge more competitive fees for trading through Nasdaq systems than hybrid markets may be able to charge.

**The Transactions Business**

Nasdaq generally generates fees for transaction services through a transaction execution charge, assessed on a per share basis to the party that accesses liquidity by another market participant. Nasdaq also generates fees through charges for connecting to our market. Finally, we earn data revenue based on our share of trading in securities listed on Nasdaq, the NYSE and Amex via the Nasdaq Market Center. Nasdaq- and non-Nasdaq-listed securities trade, not just through the Nasdaq Market Center, but also through other market centers such as ECNs and regional exchanges. Competition among market centers for trading volume is intense. Although price is a paramount factor for broker-dealers when determining where to route orders for execution, the cost of execution (including indirect costs, such as execution speed delays, compromise of confidential order information and lower order fill rates) is, in many instances, an important factor in such decisions.

**Other Recent Regulatory Developments**

In addition to Regulation NMS, the SEC published three additional proposals in November 2004 intended to address various aspects of SRO operations and governance. These proposals were published simultaneously.

*Regulation AL*

The SEC has proposed Regulation AL, a new regulation that would institute a set of rules for demutualized exchanges and securities associations that intend to list their own securities or those of an affiliate. Regulation AL seeks to require SROs to comply with additional reporting and other requirements in such an event. If Regulation AL is adopted by the SEC, we may have to alter our operations and business to comply with Regulation AL to the extent that Regulation AL supersedes our listing standards.

*Regulation SRO*

The SEC also proposed a separate regulation, known as Regulation SRO, simultaneously with Regulation AL, containing new rules regarding the governance of SROs. The proposed new rules would, among other things:

- require a majority independent board for each SRO and require the establishment of nominating, governance, audit, compensation and regulatory oversight committees of the board, all composed solely of independent directors;

- require separation of an SRO s regulatory functions from its market operations and other business interests;

- restrict ownership and voting levels of members of the SRO that are broker-dealers to no more than 20%; and

- require that all regulatory fees, fines and penalties received be used to fund regulatory programs and not be made available for distribution to stockholders.

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*Concept Release*

Finally, the SEC published a concept release requesting public comment on the structure of the self-regulatory system, including alternative approaches to securities industry self-regulation. Some of the approaches discussed by the SEC in the release call for a single SRO, or the Universal Regulator, that would be responsible for all rules, markets and members. Under these models, all markets, both the Nasdaq and other exchanges, would be registered with the Universal Regulator and would not have any self-regulatory authority. Other models discussed by the SEC would significantly reduce or even eliminate securities industry self-regulation altogether.

**Exchange Registration**

On January 13, 2006, the SEC approved our application for registration as a national securities exchange. We will begin operating as an exchange once we meet the SEC conditions discussed below. We believe that we will benefit from exchange registration for the following reasons:

- We will no longer have to share revenue from proprietary products with other exchanges that are currently part of a UTP Plan.
- NASD will no longer have voting control over us as a result of our redemption of the sole outstanding share of series D Preferred Stock for $1.00.
- We will be able to more clearly establish our separate identity and gain greater access to the capital markets to obtain financing, which will help us improve our operations and enhance our business.
- As a result of exchange registration, we will separate our regulated exchange activities from our other business operations through our adoption of a holding company corporate structure.

We will not begin to operate as an exchange, however, until the following conditions are met:

- We must join five national market system plans.
- NASD must provide a collection and dissemination facility for collecting and disseminating quotations and trade reports for securities listed on exchanges other than Nasdaq.
- We must join the Intermarket Surveillance Group, a group of U.S. and foreign securities and futures exchanges that provides a framework for sharing information and coordination of regulatory efforts among its members.
- We must establish a framework for imposing fines on members, in lieu of commencing disciplinary proceedings, for designated rule violations.

We must enter into an SEC-approved agreement under Exchange Act Rule 17d-2 with NASD which will allocate to NASD regulatory responsibility for enforcement of exchange rules.

We must submit and receive SEC approval of a fingerprinting plan to provide a framework for our members to submit fingerprints of their employees to the United States Department of Justice, as required by the Exchange Act.

It is our hope to become operational as an exchange during the second quarter of 2006. However, since some of these conditions require action by third parties and approval by the SEC, we cannot assure you that we