

NASDAQ STOCK MARKET INC

Form 424B5

May 01, 2006

Table of Contents

Filed Pursuant to Rule 424(b)(5)  
Registration No. 333-131373

A filing fee of \$85,048.00, 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)

## 18,500,000 Shares

### Common Stock

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We are offering 18,500,000 shares of common stock.

The shares of our common stock are quoted on The Nasdaq National Market under the symbol NDAQ. On April 27, 2006, the last sale price of our shares as reported on The Nasdaq National Market was \$37.36 per share.

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Investing in our common stock involves a high degree of risk. See Risk Factors beginning on page S-12 of this prospectus supplement.

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|  | Per share | Total          |
|--|-----------|----------------|
| Offering price                           | \$ 37.360 | \$ 691,160,000 |
| Discount and commissions to underwriters | \$1.401   | \$25,918,500   |
| Offering proceeds before expenses        | \$ 35.959 | \$ 665,241,500 |

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

We have granted to the underwriters an overallotment option to purchase up to 2,775,000 additional shares of common stock on the same terms and conditions as set forth above if the underwriters sell more than 18,500,000 shares of common stock in this offering. The underwriters can exercise this right at any time and from time to time, in whole or in part, within 30 days after the offering. The underwriters expect to deliver the shares of common stock to investors on or about May 2, 2006.

**Banc of America Securities LLC**  
**Bear, Stearns & Co. Inc.**

**Credit Suisse**  
**UBS Investment Bank**

**Cowen & Company**

**Keefe, Bruyette & Woods**

**Sandler O'Neill + Partners, L.P.**

**Thomas Weisel Partners LLC**

**Wachovia Securities**

April 27, 2006

**Table of Contents****TABLE OF CONTENTS****Prospectus Supplement**

|  | <b>Page</b> |
|--|-------------|
| <u>Prospectus Supplement Summary</u>                             | S-1         |
| <u>Risk Factors</u>  | S-12        |
| <u>Use of Proceeds</u>   | S-24        |
| <u>Price and Related Information Concerning Shares</u>           | S-24        |
| <u>Dividend Policy</u>   | S-24        |
| <u>Capitalization</u>  | S-25        |
| <u>The Industry</u>  | S-26        |
| <u>Description of Financing and Other Agreements</u>             | S-34        |
| <u>Legal Proceedings</u>   | S-37        |
| <u>Relationship With NASD</u>                                    | S-38        |
| <u>Shares Eligible for Future Sale</u>                           | S-41        |
| <u>Certain U.S. Federal Tax Consequences to Non-U.S. Holders</u> | S-43        |
| <u>Underwriting</u>  | S-46        |
| <u>Legal Matters</u>   | S-52        |
| <u>Where You Can Find More Information</u>                       | S-52        |
| <u>Documents Incorporated By Reference</u>                       | S-52        |
| <u>Experts</u>   | S-53        |

**Prospectus**

|  |   |
|--|---|
| <u>About This Prospectus</u>               | 1 |
| <u>Where You Can Find More Information</u> | 1 |
| <u>The NASDAQ Stock Market</u>             | 3 |
| <u>Ratio of Earnings To Fixed Charges</u>  | 4 |
| <u>Use of Proceeds</u>                     | 4 |
| <u>Description of Securities</u>           | 5 |
| <u>Description of Debt Securities</u>      | 5 |
| <u>Description of Common Stock</u>         | 6 |
| <u>Description of Preferred Stock</u>      | 7 |
| <u>Description of Warrants</u>             | 8 |
| <u>Legal Matters</u>                       | 9 |
| <u>Experts</u>                             | 9 |

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You should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. We 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 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.



**Table of Contents****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, the data may not be comparable to other publicly-available initial public offering data. 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 and Servicemarks**

ACES<sup>®</sup>, ENASTRAQ<sup>®</sup>, Market Intelligence Desk<sup>®</sup>, Market Mechanics<sup>®</sup>, MarketSite<sup>®</sup>, MarketSite Experience<sup>®</sup>, NASDAQ<sup>®</sup>, NASDAQ Biotechnology Index<sup>®</sup>, NASDAQ Canada<sup>®</sup>, NASDAQ Canada Index<sup>®</sup>, NASDAQ Capital Market<sup>®</sup>, NASDAQ Composite<sup>®</sup>, NASDAQ Composite Index<sup>®</sup>, NASDAQ Computer Index<sup>®</sup>, NASDAQ DepthView<sup>®</sup>, NASDAQ Europe Composite Index<sup>®</sup>, NASDAQ-Financial<sup>®</sup>, NASDAQ-Financial Index<sup>®</sup>, NASDAQ Industrial Index<sup>®</sup>, NASDAQ Market Center<sup>®</sup>, NASDAQ MarketSite<sup>®</sup>, NASDAQ National Market<sup>®</sup>, NASDAQ PostData<sup>®</sup>, NASDAQ PowerView<sup>®</sup>, NASDAQ Prime<sup>®</sup>, NASDAQ Report Source<sup>®</sup>, NASDAQ Telecommunications Index<sup>®</sup>, NASDAQ TotalView<sup>®</sup>, NASDAQ Trader<sup>®</sup>, NASDAQ Volume Post<sup>®</sup>, NASDAQ Workstation<sup>®</sup>, NASDAQ Workstation II<sup>®</sup>, NASDAQ-100<sup>®</sup>, NASDAQ-100 European Tracker<sup>®</sup>, NASDAQ-100 Index<sup>®</sup>, NASDAQ-100 Index Tracking Stock<sup>®</sup>, NASTRAQ<sup>®</sup>, NDX<sup>®</sup>, Opening New Worlds<sup>®</sup>, QQQ<sup>®</sup>, SelectNet<sup>®</sup>, SuperMontage<sup>®</sup>, The NASDAQ Stock Market<sup>®</sup>, The Stock Market For The Next 100 Years<sup>®</sup>, and NASDAQ/NMS<sup>®</sup> are registered trademarks of The Nasdaq Stock Market, Inc.

ACT<sup>SM</sup>, Aggregated Depth at Price<sup>SM</sup> (ADAP<sup>SM</sup>), Automated Confirmation Transaction Service<sup>SM</sup>, Closing Cross<sup>SM</sup>, Cubes<sup>SM</sup>, EQ Fund<sup>SM</sup>, EQQQ<sup>SM</sup>, FlashQuotes<sup>SM</sup>, INET<sup>SM</sup>, InfoQuotes<sup>SM</sup>, Level 1 Service<sup>SM</sup>, LogoTicker<sup>SM</sup>, Market Force<sup>SM</sup>, MarketLink<sup>SM</sup>, Market Velocity<sup>SM</sup>, Mutual Fund Quotation Service<sup>SM</sup> (MFQS<sup>SM</sup>), NASDAQ Corporate Services Network<sup>SM</sup>, NASDAQ Global Market<sup>SM</sup>, NASDAQ Index Watch<sup>SM</sup>, NASDAQ International<sup>SM</sup>, NASDAQ Market Analytix<sup>SM</sup>, NASDAQ Max<sup>SM</sup>, NASDAQ National Market Composite<sup>SM</sup>, NASDAQ Online<sup>SM</sup>, NASDAQ Quotation Dissemination Service<sup>SM</sup> (NQDS<sup>SM</sup>), NASDAQ QuoteView<sup>SM</sup>, NASDAQ Trade Dissemination Service<sup>SM</sup> (NTDS<sup>SM</sup>), NASDAQ Trade Up<sup>SM</sup>, NWII<sup>TM</sup>, Opening Cross<sup>SM</sup>, The Cube<sup>SM</sup>, Trade Reporting and Compliance Engine<sup>SM</sup> (TRACE<sup>SM</sup>), Trade Up<sup>SM</sup>, UTP Quotation Data Feed<sup>SM</sup> (UQDF<sup>SM</sup>), UTP Trade Report Data Feed<sup>SM</sup> (UTDF<sup>SM</sup>) and the logos identifying Nasdaq indexes and products are servicemarks 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



**Table of Contents**

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 similar substance used in connection with an 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, including in connection with our recent acquisition of Instinet Group Incorporated, or Instinet and our recent acquisition of approximately 14.9% of the shares of the London Stock Exchange, or LSE;

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.

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.

**Table of Contents**

**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 March 31, 2006, we were home to approximately 3,200 listed companies with a combined market capitalization of over \$4.0 trillion. We also operate The Nasdaq Market Center, which provides our market participants with the ability to access, process, display and integrate orders and quotes in The Nasdaq Stock Market and other national stock exchanges. Transactions involving 363.3 billion equity securities were executed on or reported to our systems in 2005, 13.9% higher than the 319.1 billion in 2004. Transactions involving 139.0 billion equity securities were executed on or reported to our systems in the first quarter of 2006, 53.1% higher than the 90.8 billion in the first quarter of 2005. 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 third 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,





## **Table of Contents**

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 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.

In February 2006, we announced plans to create a new market tier for public companies. The standards for the new NASDAQ Global Select Market will have financial and liquidity requirements that are higher than those of any other market. We have made all required SEC filings and expect to implement the new market tier in July 2006.

*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 approximately 7,700 equity securities as of March 31, 2006. 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. Average daily share volume in Nasdaq-listed securities was 2.00 billion shares in the first quarter of 2005 and 2.12 billion shares in the first quarter of 2006.

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**

On December 8, 2005, we completed our acquisition of Instinet Group Incorporated and the immediate sale of Instinet's Institutional Brokerage division to an affiliate of Silver Lake Partners, II, L.P, or SLP, a private equity firm. As a result of these transactions, Nasdaq owns INET ECN. We acquired INET because we believe it enables us to enhance our premier electronic equities market and provides superior execution opportunities for our customers.

Our integration of INET is well underway. We expect to begin migrating trading activity to the INET platform late in the second quarter for non-Nasdaq listed securities and early in the third quarter of 2006 for Nasdaq-listed securities. We plan to complete the migration of trading activity in the third quarter, and the integration of the related customer communication networks will continue into the fourth quarter of 2006. We may begin to recognize some cost savings in the third quarter, although full synergies will not occur until the fourth quarter, once we are able to eliminate all legacy networks and platforms. These time frames assume Nasdaq will receive prompt SEC approval of its single book and other integration-related rule proposals. We believe that the migration to the INET platform 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. As part of the integration, on February 1, 2006, we merged INET ATS, Inc., the entity operating the INET ECN, into our broker-dealer subsidiary, Brut, LLC.



## **Table of Contents**

### **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 2005, we have further reduced total direct expenses from continuing operations by approximately \$60.3 million or 14.0%, from \$430.8 to \$370.5 million. During 2004, we incurred incremental pre-tax expenses of approximately \$62.6 million in connection with taking actions to improve our operational efficiency. During 2005, we incurred net pre-tax expenses of \$20.0 million for similar expenses. In addition, 2005 results include a \$7.4 million loss recorded on the restructuring of the \$240 million subordinated convertible notes in connection with the financing of the INET acquisition.

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

### **Our Competitive Strengths**

We believe our principal competitive strengths include:

*Highly Liquid and Efficient Market.* We offer our customers a highly liquid and efficient market to execute transactions. Trade executions by The Nasdaq Market Center are extremely fast, typically within 0.4 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 among 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.

## Edgar Filing: NASDAQ STOCK MARKET INC - Form 424B5

*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

S-3

## **Table of Contents**

switched its listing to Nasdaq from the NYSE as a result of its merger with Kmart. In 2006, UAL Corp., the parent company of United Airlines, listed with Nasdaq. 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 third 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 in 2006, subject to regulatory approvals, to introduce the Nasdaq Crossing Network, 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 Crossing Network 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.

*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 2005, we derived 74.3% of our revenues from our Market Services segment and 25.7% of our revenues from our Issuer Services segment. For 2005, we derived 57.0% of our gross margin from our Market Services segment and 43.0% 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 has expanded 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

## **Table of Contents**

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 among 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.

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 and engaging in discussions with other industry participants, 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

S-5



## **Table of Contents**

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.

S-6

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**Table of Contents**

**Recent Developments**

On March 9, 2006, we submitted a non-binding indication of interest to acquire all of the shares of the LSE which was rejected by the LSE on March 10, 2006. We announced that we no longer intended to make an offer for the LSE on March 30, 2006. At that time, we reserved the right to announce an offer or possible offer or make and participate in an offer or possible offer for the LSE and/or take any other action which would otherwise be restricted under the rules of the United Kingdom City Code on Takeovers and Mergers, or the City Code, within the next six months with the consent of the United Kingdom Takeover Panel should one of the following events occur:

an agreement or recommendation from the Board of the LSE;

an announcement by a third party of an offer for or a merger with the LSE;

the LSE undertakes or announces an intention to undertake any acquisition or disposal of a material amount, or any material recapitalization other than the LSE's proposed return of capital to shareholders of up to GBP 510 million (where "material" is defined as 10% or more of the LSE's equity market capitalization as at the close of business on March 30, 2006);

the LSE announces a proposal for shareholder approval that would result in another person acquiring a 30% or greater shareholding without being required to make an offer for the remaining share capital or reverse takeover; or

there is a material change in circumstances.

On April 18, 2006, we acquired 38,100,000 shares or approximately 14.9% of the issued share capital of the LSE, at a price of GBP 11.75 per share. The total consideration represents approximately GBP 447.7 million (\$784.8 million). In connection with this purchase, we entered into a credit facility that provides for credit of up to \$1.925 billion of secured financing and currently have approximately \$385.0 million available to drawdown under this facility. See "Use of Proceeds" and "Description of Financing and Other Agreements." We continue to explore and evaluate our position with respect to the LSE and the purchase of additional LSE shares. We may purchase additional LSE shares at any time based on numerous factors, including strategic transactions and potential transactions in our industry, market conditions, LSE share trading prices and the availability of LSE shares for sale. If we choose to purchase additional LSE shares, we would likely incur additional debt.

Our net income for the first quarter of 2006 was \$18.0 million, or \$0.16 per diluted share, an increase of 41.7% from \$12.7 million or \$0.13 per diluted share in the first quarter of 2005, and an increase of 5.3% from \$17.1 million or \$0.15 per diluted share in the fourth quarter of 2005. These increases are primarily driven by contributions from recent acquisitions, improvements in trading market share, and our ongoing efforts to improve operational efficiency. Gross margin (revenues less cost of revenues) was \$162.0 million in the first quarter of 2006, an increase of 28.3% from \$126.3 million in the year-ago period, and an increase of 16.9% from \$138.6 million in the fourth quarter of 2005. During the first quarter of 2006, Market Services gross margin increased 44.5% to \$102.9 million from the first quarter of 2005, primarily due to INET results and increases in market share of trade executions for U.S. listed equities. Offsetting these increases was a decline in access services revenue as a result of the retirement of legacy products. During the first quarter of 2006, Issuer Services revenues increased 7.3% to \$58.9 million from the same period in the prior year, primarily as a result of revenues generated from recent acquisitions, including Carpenter Moore and Shareholder.com, which was partially offset by a decrease in revenues associated with the NASDAQ Insurance Agency, as well as reductions in issuer fee revenue. Total expenses increased 16.1% to \$120.2 million from \$103.5 million in the first quarter of 2005 and increased 14.0% from \$105.4 million in the prior quarter. Expenses increased as a result of the continuing INET integration and recent acquisitions.

**Table of Contents**

Included in total expenses for the first quarter 2006 are pre-tax charges of \$13.6 million relating to our continuing efforts to reduce operating expenses, improve the efficiency of our operations, and integrate INET. These charges include:

*Technology Review* We recorded depreciation and amortization expenses of \$11.9 million in the first quarter associated with our technology review, in which we changed the estimated useful life of some assets as we migrate to lower cost operating platforms and processes.

*Workforce Reductions* We recorded charges of \$1.7 million in the quarter for severance and outplacement costs.

**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.

**Table of Contents**

**THE OFFERING**

|                                       |   |
|---------------------------------------|---|
| Common stock offered                  | 18,500,000 (21,275,000 if the underwriters exercise their overallotment option in full)   |
| Shares outstanding after the offering | 111,411,159 (114,186,159 if the underwriters exercise their overallotment option in full)   |
| Use of proceeds                       | We plan to use all of the \$664.5 million of the net proceeds of this offering (after deducting underwriting discounts and offering expenses) to repay a portion of our indebtedness under the secured term loan facility of the New Credit Facility. We entered into the New Credit Facility on April 18, 2006 in connection with our purchase of 38,100,000 shares of the LSE for an aggregate purchase price of GBP 447.7 million, or approximately \$784.8 million. |
| 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 92,911,159 shares outstanding as of April 13, 2006 (such shares include 14,201,265 shares acquired or to be acquired from NASD upon exercise of warrants issued by NASD which are not currently registered. We plan to file a prospectus supplement with the SEC in May 2006 to allow holders to freely transfer such shares); and

excludes:

up to 452,516 shares of restricted stock issued to our employees and directors pursuant to equity compensation awards;

up to 10,721,484 shares of common stock issuable upon the exercise of options granted to our employees and directors, of which 3,791,391 were exercisable as of April 13, 2006 at a weighted average exercise price of \$9.29;

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 SLP at a conversion price of \$14.50 per share, which are currently convertible but 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, which are currently exercisable at an exercise price of \$14.50 per share, but which will not be freely transferable before September 8, 2006; and

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

S-9

**Table of Contents****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, 2003, 2004 and 2005 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 includes activity related to INET from December 8, 2005 through December 31, 2005 only. The summary historical financial data does not otherwise reflect the INET acquisition. This historical financial and operating information may not be indicative of our future performance.

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 of Financial Condition and Results of Operation, which are incorporated by reference in this prospectus supplement and the accompanying prospectus:

|   | Year Ended December 31,                  |                   |                  |
|---|--|-------------------|------------------|
|   | 2003                                     | 2004              | 2005             |
|   | (in thousands, except per share amounts) |                   |                  |
| <b>Statements of Income Data</b>                                    |  |                   |                  |
| Revenues  |  |                   |                  |
| Market Services(1)  | \$ 383,715                               | \$ 334,517        | \$ 653,654       |
| Issuer Services   | 204,186                                  | 205,821           | 226,033          |
| Other   | 1,944                                    | 103               | 232              |
| <b>Total revenues</b>   | <b>589,845</b>                           | <b>540,441</b>    | <b>879,919</b>   |
| Cost of revenues(1)   |  | 55,845            | 353,908          |
| <b>Gross margin</b>   | <b>589,845</b>                           | <b>484,596</b>    | <b>526,011</b>   |
| Total direct expenses   | 492,745                                  | 430,825           | 370,569          |
| Elimination of non-core product lines, initiatives and severance(2) | 97,910                                   |                   |                  |
| Nasdaq Japan impairment loss  | (5,000)                                  |                   |                  |
| Support costs from related parties, net                             | 61,504                                   | 45,588            | 41,779           |
| <b>Total expenses</b>   | <b>647,159</b>                           | <b>476,413</b>    | <b>412,348</b>   |
| <b>Operating income (loss)</b>                                      | <b>(57,314)</b>                          | <b>8,183</b>      | <b>113,663</b>   |
| Net income (loss) from continuing operations                        | (45,112)                                 | 1,804             | 61,690           |
| Income (loss) from discontinued operations, net of tax(3)           | (60,335)                                 | 9,558             |                  |
| <b>Net income (loss)</b>  | <b>\$ (105,447)</b>                      | <b>\$ 11,362</b>  | <b>\$ 61,690</b> |
| Preferred stock   |  |                   |                  |
| Loss on exchange of securities                                      |  | (3,908)           |                  |
| Dividends declared  | (8,279)                                  | (8,354)           | (3,220)          |
| Accretion of preferred stock  |  | (926)             | (3,377)          |
| <b>Net income (loss) applicable to common stockholders</b>          | <b>\$ (113,726)</b>                      | <b>\$ (1,826)</b> | <b>\$ 55,093</b> |
| Basic and diluted net earnings (loss) per share:                    |  |                   |                  |
| Basic net earnings (loss) per share:                                |  |                   |                  |
| Continuing operations   | \$ (0.68)                                | \$ (0.14)         | \$ 0.68          |
| Discontinued operations   | (0.77)                                   | 0.12              |                  |

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|   |           |           |         |
|---|-----------|-----------|---------|
| Total basic net earnings (loss) per share   | \$ (1.45) | \$ (0.02) | \$ 0.68 |
| Diluted net earnings (loss) per share:      |           |           |         |
| Continuing operations                       | \$ (0.68) | \$ (0.14) | \$ 0.57 |
| Discontinued operations                     | (0.77)    | 0.12      |         |
| Total diluted net earnings (loss) per share | \$ (1.45) | \$ (0.02) | \$ 0.57 |

S-10



**Table of Contents**

|  | As of December 31, |             |             |
|--|--------------------|-------------|-------------|
|  | 2003               | 2004        | 2005        |
|  | (in thousands)     |             |             |
| <b>Balance Sheet Data</b>  |                    |             |             |
| Cash and cash equivalents and investments available-for-sale     | \$ 334,633         | \$ 233,099  | \$ 344,606  |
| Total assets   | 851,254            | 814,820     | 2,046,786   |
| Total Long-term liabilities(4)                                   | 452,927            | 449,941     | 1,467,453   |
| Total stockholders   | 160,696            | 156,563     | 253,007     |
|  | <b>2003</b>        | <b>2004</b> | <b>2005</b> |
| <b>Other Data</b>  |                    |             |             |
| Average daily share volume in Nasdaq-listed stocks (in billions) | 1.69               | 1.81        | 1.80        |
| Percentage of share volume reported to Nasdaq systems(5)         | 67.0%              | 51.3%       | 57.0%       |
| Initial public offerings   | 54                 | 148         | 126         |
| Secondary offerings  | 190                | 233         | 222         |
| New listings(6)  | 134                | 260         | 269         |
| Number of listed companies(7)                                    | 3,333              | 3,271       | 3,208       |

- (1) Pursuant to the Emerging Issues Task Force ( EITF ) of the Financial Accounting Standards Board ( FASB ) Issue No. 99-19, Reporting Revenue Gross as a Principal versus Net as an Agent, ( EITF 99-19 ), Nasdaq records execution revenues from transactions executed through Brut and INET on a gross basis in revenues and records expenses such as liquidity rebate payments as cost of revenues as Brut and INET act as principal. Before 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, third or fourth quarters of 2005.
- (2) Reflects expenses in connection with our strategic review.
- (3) For the year ended December 31, 2003, reflects losses related to our disposal of Nasdaq Europe and IndigoMarkets. The net gain of \$9.6 million for the year ended December 31, 2004 related to the release of a reserve in conjunction with the transfer of Nasdaq's ownership of Nasdaq Europe.
- (4) Increase in long-term liabilities at December 31, 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 and the borrowing under a \$750.0 million senior term loan facility in December 2005. In April 2006, we refinanced our \$750.0 million senior term loan facility with our New Credit Facility of which \$1.54 billion was outstanding as of April 18, 2006. See Description of Financing and Other Agreements.
- (5) Consists of all trades in Nasdaq-listed securities reported to The Nasdaq Market Center as well as INET activity since December 8, 2005.
- (6) Includes initial public offerings, including those completed on a best efforts basis, and listings that switched from other listing venues.
- (7) Number of listed companies as of period end.

**Table of Contents**

**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.*

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

We have a significant amount of debt. This debt includes our New Credit Facility (as defined below in Description of Financing and Other Agreements Credit Agreement ), under which we have borrowed approximately \$1.54 billion as of April 18, 2006, and may borrow up to approximately an additional \$385.0 million (of which approximately \$310.0 million is limited in use to purchasing additional LSE shares) and also includes \$445.0 million of our convertible notes. See Description of Financing and Other Agreements. Our total debt as of March 31, 2006, on a pro forma basis after giving effect to the borrowings under the New Credit Facility, was \$1.98 billion. Although we intend to use the proceeds of this offering to reduce the indebtedness under the secured term loan facility of our New Credit Facility, we will continue to have significant debt. Amounts repaid under the term loan of the New Credit Facility will constitute permanent reductions in availability. See Use of Proceeds. 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;

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.

Our significant leverage has also resulted in the downgrading of our credit rating by Moody's to Ba3 from Ba2. In addition, Moody's lowered its ratings outlook to negative from stable and Standard & Poor's has put our credit rating on Creditwatch with negative implications.

In addition, our New 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 and as a consequence of our current debt outstanding under our New Credit Facility, our convertible notes would not permit us to incur additional senior debt.

***If we do not timely and efficiently integrate INET's operations, 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 and have incurred significant costs in connection with the acquisition. As of December 31, 2005, these costs were \$34.4 million. We are in the process of integrating INET's business with ours, and we anticipate incurring between \$65.0 million and \$75.0 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.

S-12

## **Table of Contents**

*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.

***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. As contemplated by this strategy, we submitted, on March 9, 2006, a non-binding indication of interest to acquire the LSE which was rejected by the LSE on March 10, 2006. We announced that we no longer intended to make an offer for the LSE on March 30, 2006, although we reserved our rights under certain circumstances to make an offer or participate in an offer for the LSE. On April 18, 2006, we acquired 38,100,000 shares or approximately 14.9% of the issued share capital of the LSE for an aggregate purchase price of approximately \$784.8 million. In connection with the purchase of the LSE shares, we entered into the New Credit Facility. Given our inability to access confidential information regarding LSE, our ability to undertake a due diligence review with respect to LSE has been limited. We can offer no assurances as to how this investment will perform and to the extent it does not perform well we may be materially and adversely impacted. We may determine to buy or sell LSE shares at any time. If we choose to purchase additional LSE shares, we would likely incur additional debt.

We may finance future acquisitions by issuing additional 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 the debt resulted in significant incremental leverage. Additional debt may reduce our liquidity, curtail our access to financing markets, impact our standing with the credit agencies and increase the cash flow required for debt service. 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.

***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

## **Table of Contents**

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 our services and products. In addition, our failure to anticipate or respond adequately to changes in technology and customer preferences, or any significant delays in 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 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. The NYSE recently decreased its maximum annual listing fee by 50% from \$1 million to \$500,000, which is still significantly higher than, although more competitive with, 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 decreased 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 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.

### ***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

S-14

## **Table of Contents**

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, changes in price levels of securities and 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 the companies listed on The Nasdaq Stock Market are in the technology sector. 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 New Credit Facility 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.

### ***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.





## **Table of Contents**

***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' 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 exchanges and 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 recent 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 addition, the merger with Archipelago has given NYSE 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 market share of transactions in Nasdaq-listed and exchange-listed securities.*

It is possible that the Nasdaq/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, has acquired Attain ECN, a competitor of ours. TradeBot Systems launched the BATS ECN early in

## **Table of Contents**

2006. Also early in 2006, Citigroup Inc. announced plans to launch its own electronic stock-trading network from its acquisition of OnTrade Inc., an ECN previously operated by NexTrade Holdings Inc. Recently, the International Securities Exchange, or ISE, a leading options exchange, announced its intention to expand into trading cash equities. 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. We have recently taken steps to rationalize our pricing. This rationalization of our pricing may adversely affect our market share.

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.

### ***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.

*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

S-17

## **Table of Contents**

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 future growth opportunities, but who may also introduce products that 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 cash on hand. 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 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.

### ***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

S-18

## **Table of Contents**

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 before the Brut acquisition. Any failure to comply with these broker-dealer 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. Settlement discussions have been commenced with the NASD that would involve the imposition of fines or other sanctions on Brut.

As registered broker-dealers subsidiaries, Brut, LLC, INET ATS, Inc. and Island Execution Services, LLC, are or were subject to regulatory requirements intended to ensure their general financial soundness and liquidity, which requires that they comply with certain minimum capital requirements. The SEC and NASD impose rules that require notification when net capital falls below certain predefined criteria, dictate the ratio of debt to equity in the regulatory capital composition of a broker-dealer and constrain the ability of a broker-dealer to expand its business under certain circumstances. Additionally, the Uniform Net Capital Rule, NYSE and NASD rules impose certain requirements that may have the effect of prohibiting a broker-dealer from distributing or withdrawing capital and requiring prior notice to the SEC, NYSE and NASD for certain withdrawals of capital.

As of December 31, 2005, Brut was required to maintain minimum net capital of \$0.3 million and had total net capital of approximately \$6.7 million or \$6.4 million in excess of the minimum amount required. As of December 31, 2005, Island Execution Services was required to maintain minimum net capital of \$1.0 million and had total net capital of approximately \$1.5 million or \$0.5 million in excess of the minimum amount required.

As of December 31, 2005, INET ATS, Inc. was required to maintain minimum net capital of \$1.0 million and had a net capital deficiency of approximately \$48.0 million. This deficiency was due to INET ATS' investment in a non-U.S. based money market fund that is not registered under the Investment Company Act of 1940. Accordingly, the balances in the fund are a non-allowable asset under SEC Rule 15c3-1, the net capital rule. INET ATS provided hind-sight notice that the net capital was below the minimum amount required under the net capital rule. On February 8, 2006, the funds were redeemed and invested in a money market fund registered under the Investment Company Act of 1940, which corrected the net capital deficiency position. No funds were lost and no customers suffered any loss.

***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 our 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

S-19

## **Table of Contents**

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 affect 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.



## **Table of Contents**

*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 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 the interests of holders 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.

*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. Although we have now fulfilled many of these conditions, some of the remaining conditions are subject to SEC approval or the actions of third parties. One of the conditions requires NASD to offer a facility for disseminating over-the-counter quotations and collecting over-the-counter trade reports for non-Nasdaq-listed securities. We have requested that the SEC allow us to operate as an exchange for Nasdaq-listed stocks only prior to the satisfaction of this condition, and expect the SEC to approve our request, but we will not be able to operate as an exchange for non-Nasdaq-listed securities until this condition is satisfied. Until the condition is satisfied, we will continue to rely on NASD's SRO license to operate facilities that have not yet transitioned to the exchange, 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.

## **Risks Related to Our Common Stock**

*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 NYSE/Archipelago merger and any developments with LSE;

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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.

S-21

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**Table of Contents**

*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 April 13, 2006, there were 92,911,159 shares of our common stock outstanding. All of our outstanding shares are freely transferable, except shares held by our affiliates, as 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, 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 provide for the sale of the remaining Warrant Shares by filing a prospectus supplement with the SEC in May 2006. Upon the filing of the prospectus supplement, holders of these Warrant Shares will be able to freely transfer these shares. If any of the warrants expire without being exercised, then we expect NASD would be able to sell the underlying shares under the prospectus supplement.

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 3,791,391 options exercisable as of April 13, 2006 at a weighted average exercise price of \$9.29. 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 price of \$14.50 per share into approximately 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, prospectus supplement 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. Exchange rules will also require the SEC's approval of any business ventures with one of our members, subject to exceptions.

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



**Table of Contents**

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.



**Table of Contents****USE OF PROCEEDS**

We plan to use all of the \$664.5 million of the net proceeds of this offering (after deducting underwriting discounts and offering expenses) to repay a portion of the indebtedness under the secured term loan facility of the New Credit Facility. We entered into the New Credit Facility on April 18, 2006 in connection with our purchase of 38,100,000 shares of the LSE for an aggregate purchase price of GBP 447.7 million, or approximately \$784.8 million. Amounts repaid under the term loan of the New Credit Facility will constitute permanent reductions in availability. The interest rate on loans made under the secured term loan facility that we intend to pay down with these proceeds is currently one month LIBO Rate plus 2.25% and the maturity of such secured term loan is April 18, 2012. See Description of Financing and Other Agreements.

**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 and for the second quarter of 2006 through April 27, 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.

|   | <u>High</u> | <u>Low</u> |
|---|-------------|------------|
| <i>Fiscal 2006</i>                      |             |            |
| Second quarter (through April 27, 2006) | \$ 45.00    | \$ 37.36   |
| First quarter                           | \$ 46.75    | \$ 34.83   |
| <i>Fiscal 2005</i>                      |             |            |
| Fourth quarter                          | \$ 45.23    | \$ 25.33   |
| Third quarter                           | 25.75       | 18.80      |
| Second quarter                          | 20.00       | 9.81       |
| First quarter                           | 11.86       | 7.60       |
| <i>Fiscal 2004</i>                      |             |            |
| 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 April 13, 2006, we had approximately 971 holders of record of our common stock.

**DIVIDEND POLICY**

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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.

S-24

**Table of Contents****CAPITALIZATION**

The following table sets forth cash and cash equivalents, investments available-for-sale and our capitalization as of December 31, 2005:

on an actual basis;

as adjusted to give effect to the sale of approximately 8.0 million common shares in our February 2006 equity offering, the redemption of our Series C cumulative preferred stock, the repayment on April 18, 2006 of our former credit facility, dated as of December 8, 2005, the acquisition of LSE shares and the entry into the New Credit Facility incurred to finance the acquisition of LSE shares and to refinance our former credit facility, referred to collectively as the Transactions; and

as adjusted for the Transactions and as further adjusted to reflect the issue and sale of 18,500,000 shares of common stock by us in this offering at a public offering price of \$37.36 per share, less underwriting discounts and commissions and estimated offering expenses payable by us and the repayment of our indebtedness under the secured term loan of the New Credit Facility.

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:

|  | <b>As of December 31, 2005</b> |   |   |
|--|--------------------------------|---|---|
|  | <b>Actual</b>                  | <b>As adjusted for<br/>the<br/>Transactions<br/>and sales of<br/>common stock</b> | <b>As adjusted for<br/>the<br/>Transactions<br/>and sales of<br/>common stock</b> |
|  | <b>Actual</b>                  | <b>unaudited<br/>(in thousands, except<br/>share and par value amounts)</b>       | <b>unaudited</b>  |
| Cash and cash equivalents  | \$ 165,237                     | \$ 366,154  | \$ 366,154  |
| Investments available-for-sale   | 179,369                        | 969,241   | 969,241   |
| <b>Total cash and investments available-for-sale</b>   | <b>344,606</b>                 | <b>1,335,395</b>  | <b>1,335,395</b>  |
| <b>Total debt obligations</b>  | <b>1,192,428</b>               | <b>1,982,400</b>  | <b>1,317,908</b>  |
| <b>Stockholders' equity</b>  |                                |   |   |
| Common stock, \$0.01 par value, 300,000,000 authorized, shares issued:<br>130,684,783; shares outstanding: 83,148,909 <sup>(1)</sup> | 1,307                          | 1,307   | 1,307   |

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|  |                   |                   |                   |
|--|-------------------|-------------------|-------------------|
| Preferred stock 30,000,000 authorized; Series C: 953,470 shares issued and outstanding; Series D: 1 share issued and outstanding | 95,017            |                   |                   |
| Additional paid-in capital   | 383,669           | 587,862           | 1,013,704         |
| Common stock in treasury, at cost: 47,535,874 shares <sup>(2)</sup>  | (613,369)         | (717,113)         | (478,463)         |
| Accumulated other comprehensive loss   | (1,290)           | (1,290)           | (1,290)           |
| Deferred stock compensation  | (4,930)           | (4,930)           | (4,930)           |
| Common stock issuable  | 6,809             | 6,809             | 6,809             |
| Retained earnings  | 385,794           | 373,694           | 373,694           |
|  | <u>          </u> | <u>          </u> | <u>          </u> |
| Total stockholders' equity   | 253,007           | 246,339           | 910,831           |
|  | <u>          </u> | <u>          </u> | <u>          </u> |
| Total capitalization   | \$ 1,445,435      | \$ 2,228,739      | \$ 2,228,739      |
|  | <u>          </u> | <u>          </u> | <u>          </u> |

(1) 109,691,051 shares, as adjusted for the sale of common stock in this offering and our common stock offering in February 2006.

(2) 20,993,732 shares, as adjusted for the sale of common stock in this offering and our common stock offering in February 2006.

S-25

## **Table of Contents**

### **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 completed 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 Borse 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 LSE in recent years. On March 9, 2006, we submitted a non-binding indication of interest to acquire the LSE which was rejected by the LSE on March 10, 2006. We announced that we no longer intended to make an offer for the LSE on March 30, 2006, although we reserved our rights under certain circumstances to make an offer or participate in an offer for the LSE. On April 18, 2006, we acquired 38,100,000 shares or approximately 14.9% of the issued share capital of the LSE. In addition, the NYSE has announced an intention to pursue strategic acquisitions and alliances and stated that it is currently engaged in discussions with certain participants, although no agreements have been announced.

#### **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 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

S-26

## **Table of Contents**

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. The sub-penny pricing rule became effective 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.





## **Table of Contents**

The merger between NYSE and Archipelago is causing changes to the competitive landscape. In contrast to Nasdaq, until recently, the two primary national securities exchanges, the NYSE and the Amex, were 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 converted from mutual ownership to stockholder ownership. Current seat holders received 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 has developed and launched the Better Alternative Trading System, or BATS ECN. Citigroup acquired 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. The ISE also announced its intention to expand into trading cash equities. 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.



**Table of Contents**

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 are offering 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 March 31, 2006, compared to approximately 2,600 and 640 companies listed on the NYSE and Amex, respectively. As of March 31, 2006, ArcaEx is the sole listing venue for only 9 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**

|                           | <b>Year Ended December 31</b> |             |             |
|---------------------------|-------------------------------|-------------|-------------|
|                           | <b>2003</b>                   | <b>2004</b> | <b>2005</b> |
| The Nasdaq Stock Exchange | 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. In 2006, UAL Corp., the parent company of United Airlines, listed with Nasdaq. International exchanges, such as the LSE, are and are becoming more significant competitors for

international listings.

S-29

## **Table of Contents**

### **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 over 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 the first quarter of 2006, 71.6% of the trading volume in NYSE securities occurred on the floor of the NYSE and 21.3% was reported to The Nasdaq Market Center. Following the acquisition of INET, we are one of the largest order flow providers to the floor of the NYSE. We

offer certain efficiencies in our business model

S-30

## **Table of Contents**

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;

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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.

### *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

S-31



## **Table of Contents**

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 certain conditions identified in the SEC's approval order are met. As described below, we have made considerable progress toward meeting those conditions:

The order required us to join five national market system plans. In each case, we are now either a member of the plan or expect SEC action to make us a member shortly.

NASD must provide a facility for collecting and disseminating quotations and trade reports for securities listed on exchanges other than Nasdaq. Nasdaq has submitted a request to the SEC to allow us to operate as an exchange for Nasdaq-listed stocks while also continuing to operate, on a transitional basis, a quotation and trade reporting facility for non-Nasdaq listed stocks under a delegation of authority from the NASD. The goal of the proposal is to ease the transition to exchange status for Nasdaq and its market participants, and to allow us to operate as an exchange for Nasdaq-listed stocks before this condition is satisfied. We expect that the SEC will act favorably upon this request. In addition, Nasdaq and NASD are working on a proposal under which Nasdaq will provide technology via contract to allow the NASD to operate a facility for non-Nasdaq stocks without delegating authority to Nasdaq. When that proposal is implemented, Nasdaq would operate as an exchange for non-Nasdaq listed stocks as well.

We have joined 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.

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The SEC has approved a minor rule violation plan to establish a framework for imposing fines on members, in lieu of commencing disciplinary proceedings, for certain designated rule violations.

We have entered into an agreement with the NASD under Exchange Act Rule 17d-2 to allocate regulatory responsibility for enforcement of certain exchange rules to the NASD. The SEC has published the agreement for comment, with comments due by May 8, 2006.

We expect to receive SEC approval shortly 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

S-32

**Table of Contents**

will meet SEC conditions to operate as an exchange in that time frame. In particular, we note that in July 2005, NASD filed a proposal with the SEC that would establish the Trade Reporting Facility, or TRF, for the purpose of collecting reports of transactions in Nasdaq-listed and non-Nasdaq-listed securities that are executed otherwise than on an exchange. The TRF will be a facility of NASD operated by Nasdaq and regulated exclusively by NASD, and will be available solely to NASD members. We do not expect to operate as an exchange before this proposal is approved. Although we are optimistic concerning the prospects for approval of the proposal, we note that several of our competitors have filed comments with the SEC in opposition to the TRF.

Additionally, we are in the process of converting to a holding company structure and have received stockholder approval to adopt this structure at the time when or before we begin operating as an exchange. A newly formed subsidiary, The NASDAQ Stock Market LLC, will hold the operations of The Nasdaq Stock Market and our exchange license.

Once we meet SEC conditions to operate as an exchange, NASD will provide regulatory services of the same general type and scope to our exchange subsidiary as are currently provided, which will preserve the regulatory separation currently in place. As a result of exchange registration, however, our exchange subsidiary has status as an SRO separate from that of NASD. As an SRO, the exchange subsidiary has its own rules pertaining to listing, membership and trading that are distinct and separate from those rules applicable to broker-dealers that are administered by NASD. Broker-dealers are now able to choose to become members of Nasdaq, in addition to their other SRO memberships, including membership in NASD. As of April 20, 2006, approximately 641 broker-dealers have already applied for membership in Nasdaq. To date, approximately 557 applicants have been processed and received approval conditional upon remaining in good standing on the date when we begin to operate as an exchange.

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**Table of Contents**

**DESCRIPTION OF FINANCING AND OTHER AGREEMENTS**

**Credit Agreement**

On April 11, 2006, Nightingale Acquisition Limited, a private limited company formed under the laws of England and Wales and a wholly-owned subsidiary of The Nasdaq Stock Market, Inc., agreed to purchase 38,100,000 shares or approximately 14.9% of the issued share capital of the LSE, at a price of GBP 11.75 per share. The total consideration represents approximately GBP 447.7 million, or approximately \$784.8 million, based on an average exchange rate of 1.75298 \$ per GBP as of April 18, 2006. We agreed to purchase 35,404,265 of the LSE shares from Threadneedle Asset Management Limited, and agreed to purchase the balance from another LSE shareholder. We completed the share purchase on April 18, 2006.

To finance the share purchase, we entered into the following credit agreements (the New Credit Facility), which became effective on April 18, 2006. The New Credit Facility replaced our former credit agreement, dated as of December 8, 2005.

The New Credit Facility provides for credit of up to \$1.925 billion of secured financing. The \$1.925 billion available under the New Credit Facility includes (1) a five-year \$75.0 million revolving credit facility, with a letter of credit subfacility and swingline loan subfacility; (2) a six-year \$750.0 million senior term loan facility and (3) a six-year \$1.1 billion secured term loan facility structured as a delayed-draw term loan (which is limited in use to purchasing LSE shares). The interest rate on loans made under New Credit Facility is expected to be either (1) a rate per annum equal to the greater of (a) the rate announced from time to time by Bank of America, N.A. as its prime rate and (b) the federal funds effective rate plus 1/2 of 1% or (2) at the LIBO Rate set by the British Bankers' Association at 11:00 a.m. two days prior, in each case, plus an applicable margin that varies depending upon the ratings of the loans under the New Credit Facility most recently received by Moody's Investors Service, Inc. and Standard & Poor's Ratings Group, Inc. Nasdaq has also agreed to pay customary fees and expenses related to the New Credit Facility and to provide customary indemnities.

We intend to use proceeds from this offering to repay amounts outstanding under the \$1.1 billion secured term loan of our New Credit Facility. Amounts repaid under this term loan of the New Credit Facility will constitute permanent reductions in availability. See Use of Proceeds.

Our obligations under the New Credit Facility are secured by a security interest in and liens upon substantially all of our assets and our subsidiaries. All of our domestic subsidiaries are guarantors of our obligations under the New Credit Facility, excluding the regulated broker-dealer subsidiaries, the insurance-related subsidiaries and the trade reporting facility, which we expect to form in later in 2006.

The New Credit Facility contains customary negative covenants which will affect our subsidiaries and us, including the following:

limitations on the payment of dividends and redemptions of our capital stock;

limitations on loans, guarantees, investments, incurrence of debt and hedging arrangements;

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limitations on issuance and amendment of preferred stock and amendment of subordinated debt agreements;

prohibition of prepayments, redemptions and repurchases of debt other than debt under the credit facility;

limitations on liens and sale-leaseback transactions;

limitations on mergers, recapitalizations, acquisitions and asset sales;

limitations on transactions with affiliates;

limitations on restrictions on liens and other restrictive agreements; and

limitations on changes in our business.

S-34

**Table of Contents**

In addition, the New Credit Facility contains financial covenants, specifically, a maintenance of minimum interest expense coverage ratio and maximum leverage ratio, as defined in the New Credit Facility and pursuant to the following schedules:

**Interest Expense Coverage Ratio**

| <b>Period</b>                       | <b>Ratio</b> |
|-------------------------------------|--------------|
| Effective Date to June 30, 2006     | 1.50 to 1.00 |
| July 1, 2006 to September 30, 2006  | 1.50 to 1.00 |
| October 1, 2006 to March 31, 2007   | 1.75 to 1.00 |
| July 1, 2007 to September 30, 2007  | 2.00 to 1.00 |
| October 1, 2007 to March 31, 2008   | 2.50 to 1.00 |
| April 1, 2008 to September 30, 2008 | 2.75 to 1.00 |
| October 1, 2008 to March 31, 2009   | 3.00 to 1.00 |
| April 1, 2009 to September 30, 2009 | 3.50 to 1.00 |
| Thereafter                          | 4.00 to 1.00 |

Under the terms of the New Credit Facility, the Interest Coverage Ratio for the period from April 1, 2006 to June 30, 2006 may be less than 1.50 to 1.00 under certain circumstances, but will not be less than 1.35 to 1.00.

**Leverage Ratio**

| <b>Period</b>                         | <b>Ratio</b> |
|---------------------------------------|--------------|
| Effective Date to June 30, 2006       | 5.75 to 1.00 |
| July 1, 2006 to September 30, 2006    | 5.50 to 1.00 |
| October 1, 2006 to December 31, 2006  | 5.00 to 1.00 |
| January 1, 2007 to March 31, 2007     | 4.25 to 1.00 |
| April 1, 2007 to June 30, 2007        | 4.00 to 1.00 |
| July 1, 2007 to September 30, 2007    | 3.75 to 1.00 |
| October 1, 2007 to December 31, 2007  | 3.50 to 1.00 |
| January 1, 2008 to March 31, 2008     | 3.25 to 1.00 |
| April 1, 2008 to December 31, 2008    | 3.00 to 1.00 |
| January 1, 2009 to September 30, 2009 | 2.75 to 1.00 |
| Thereafter                            | 2.50 to 1.00 |

The \$1.1 billion secured term loan facility is excluded from the calculation of the Leverage Ratio until October 2007. The New Credit Facility also contains customary affirmative covenants, including access to financial statements, notice of trigger events and defaults, and maintenance of business and insurance, and events of default, as well as cross-defaults on material indebtedness.

We are permitted to repay borrowings under the credit facility at any time in whole or in part, subject to our remaining in compliance with the covenants discussed above and our obligation to pay additional fees in certain circumstances. Beginning in 2007, we also are required to use a percentage of its excess cash flow to repay loans outstanding under the New Credit Facility. The percentage of cash flow we are required to use for repayments varies depending on our leverage ratio at the end of the year for which cash flow is calculated, with the maximum repayment

percentage set at 50.0% of excess cash flow.

*Convertible Notes.* On April 22, 2005, we entered into a securities purchase agreement with Norway Acquisition SPV, LLC, or Norway SPV, an affiliate of SLP and Hellman & Friedman, providing for the sale by us to Norway SPV of \$205.0 million aggregate principal amount of 3.75% Series A Convertible Notes due October 2012 (the Series A Notes ) and warrants (the Series A Warrants ) to purchase 2,209,052 shares of our

S-35

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**Table of Contents**

common stock at \$14.50 per share. The Series A Notes will be convertible into our common stock, subject to certain adjustments and conditions at a purchase price of \$14.50 per share, which would equal 14,137,931 shares. The Series A Warrants are currently exercisable by Norway SPV and its permitted transferees and will terminate on December 8, 2008, unless earlier terminated in connection with the mandatory redemption of the Notes. The Series A Notes, Series A Warrants and the shares underlying the Series A Notes and Series A Warrants are not transferable without our consent until September 8, 2006. In addition, the Series A Notes, the Series A Warrants and the shares underlying the Series A Notes and the Series A Warrants can only be transferred pursuant to an exemption to the Securities Act or if they are registered under the Securities Act. The Series A Notes and the Series A Warrants purchased by Norway SPV are owned by SLP and Hellman & Friedman or their respective affiliates.

On April 22, 2005, we also entered into a note amendment agreement with Hellman & Friedman, providing for the exchange by us of our \$240.0 million aggregate principal amount of 4.0% convertible subordinated notes due 2006 for \$240.0 million aggregate principal amount of 3.75% Series B Convertible Notes due 2012 (the Series B Notes and, together with the Series A Notes, the Notes ) and warrants (the Series B Warrants and, together with the Series A Warrants, the Warrants ) to purchase 2,753,448 shares of our common stock at \$14.50 per share. The Series B Notes will be convertible into our common stock, subject to certain adjustments and closing conditions, at a purchase price of \$14.50 per share, which would equal 16,551,724 shares. The Series B Warrants are currently exercisable by Hellman & Friedman and their permitted transferees and will terminate on December 8, 2008, unless earlier terminated in connection with the mandatory redemption of the Notes. The Series B Notes, Series B Warrants and the shares underlying the Series B Notes and Series B Warrants are not transferable without our consent until September 8, 2006. In addition, the Series B Notes, the Series B Warrants and the shares underlying the Series B Notes and the Series B Warrants can only be transferred pursuant to an exemption to the Securities Act or if they are registered under the Securities Act.

The holders of the Notes and the Warrants are entitled to the benefits of a registration rights agreement among us, SLP and Hellman & Friedman commencing September 8, 2006. Under the registration rights agreement, we have agreed to file registration statements to cover the resale of the Notes or the common stock issuable upon conversion of the Notes or exercise of the Warrants at the request of the holders and grant rights to the holders to register their common stock if we file registration statements to register our common stock.

In addition, our stockholders approved an amendment to our restated certificate of incorporation permitting the holders of the Notes to vote on all matters submitted to a vote of our stockholders. Under the terms of the amendment, each holder of the Notes is entitled to the number of votes equal to the number of shares of our common stock that could be acquired upon conversion of such holder's Notes on the applicable record date, subject to the 5% voting limitation contained in our restated certificate of incorporation.

The Notes are senior unsecured obligations of us and rank *pari passu* in right of payment with all existing and any future senior unsecured indebtedness of us and are senior in right of payment to any future subordinated indebtedness of us. The Notes are currently convertible by their holders into our common stock at an initial conversion rate of 0.0689655 shares of our common stock per \$1.00 principal amount of Notes, subject to adjustments, or, at our option, into cash and our common stock.

We may redeem the Notes at any time after April 22, 2011 for a cash payment equal to the aggregate principal amount of the Notes plus any accrued and unpaid interest on the Notes, subject to the holders' option to convert the Notes into our common stock after notice of such redemption is given. The indenture pursuant to which the Notes were issued is subject to customary events of default, including failure to make required payments, failure to comply with certain agreements or covenants, acceleration of certain other indebtedness rendering of final judgments for the payment of certain money, and certain events of bankruptcy and insolvency. Additionally, in connection with the issuance of the Notes and the Warrants, we entered into an amended and restated securityholders agreement with SLP and Hellman & Friedman. Under the terms of this agreement, SLP



**Table of Contents**

and Hellman & Friedman are each entitled to (i) have a representative appointed to our board of directors, (ii) obtain additional information about us and (iii) certain consultation and information rights; provided that SLP and its affiliates and Hellman & Friedman and its affiliates maintain ownership of a certain percentage of the Notes. Messrs. Glenn Hutchins and Patrick Healy are on our board of directors as a result of these provisions.

**LEGAL PROCEEDINGS**

We are not currently a party to any litigation that we believe could have a material adverse effect on our business, financial condition, or operating results. However, from time to time, we have been threatened with, or named as a defendant in, lawsuits or involved in regulatory proceedings.

As a result of the INET acquisition, Nasdaq has become an interested party with respect to a pending NASD arbitration between Instinet and Archipelago. In response to an NASD arbitration claim by an Instinet subsidiary in 2002, Archipelago filed a counter-claim alleging (1) that Island and Instinet conspired to set fees and (2) that Island used dominant market power in an anti-competitive manner. In February 2003, Archipelago filed a separate NASD arbitration claim against Instinet seeking to recoup fees that it had paid Instinet, alleging that the fees Instinet charged were differential and violated Regulation ATS, and alleging an antitrust claim similar to that described above. The two arbitrations have been consolidated, bringing the combined claim against Instinet and one of its subsidiaries to \$213.0 million. The consolidated arbitration has been set for hearing before an NASD arbitration panel. The parties have almost completed discovery and Nasdaq has proposed that the parties exchange pre-trial motions. We do not believe that the impact of this arbitration should result in a material adverse effect on our business, financial condition, or operating results.

**Table of Contents**

**RELATIONSHIP WITH NASD**

**History**

We were founded in 1971 as a wholly-owned subsidiary of NASD. NASD, which operates subject to SEC oversight, is the largest self-regulatory organization in the United States with a membership that includes virtually every broker-dealer that engages in the securities business within the United States. Beginning in 2000, NASD restructured and broadened our ownership through a two-phase private placement of our securities. Securities in the private placements were offered to all NASD members, certain issuers listed on The Nasdaq Stock Market and certain investment companies.

On January 13, 2006, the SEC approved our application for registration as a national securities exchange. We will not begin to operate as an exchange, however, until we meet conditions imposed by the SEC. Until we become an operating exchange, NASD has delegated to us our legal authority to operate as a stock market under a plan approved by the SEC, or Delegation Plan. Also, until such time, the SEC also requires that NASD retain greater than 50% of the voting control over us. Although we exercise primary responsibility for market-related functions, including market-related rulemaking and interpretations, all actions taken pursuant to authority delegated by NASD are subject to review, ratification, or rejection by the NASD Board of Governors. Until we are operating as a national securities exchange, the Delegation Plan remains in effect.

**Agreements and Arrangements with NASD**

*Regulatory Services Agreement*

Pursuant to the Delegation Plan, NASDR, a wholly-owned subsidiary of NASD, currently provides us with regulatory services, including the regulation of trading activity on The Nasdaq Stock Market and the market surveillance functions of Nasdaq. We do not have a formalized written agreement with NASDR for the performance of regulatory services prior to us operating as an exchange. In the years ended December 31, 2005 and December 31, 2004, we paid NASDR \$41.7 million and \$45.6 million, respectively, for regulatory services provided pursuant to the Delegation Plan, versus \$61.8 million in 2003. The reduction was due to achieving operational efficiencies and the diversification of NASDR's client base.

We have entered into a regulatory services agreement pursuant to which NASDR would provide regulatory services to us for a term of 10 years commencing when we meet SEC conditions to operate as an exchange. Since these conditions have not yet been satisfied, no services have been performed under this agreement. Pursuant to the terms of the regulatory services agreement, the services provided will be of the same type and scope as are currently provided by NASDR to us under the Delegation Plan. Each regulatory service is to be provided for a minimum of five years, then the parties may determine to terminate a particular service. The termination of a particular service will generally be based upon a review of pricing and the need for such services. Under the agreement, NASD will bill us a fee for each required service provided that it is based on NASD's direct and indirect costs plus a markup of six percent on compensation costs related to NASD's employees used to provide the services. Any services other than those required by the agreement will be billed at cost, plus a mutually agreed upon markup.

Similar to the services NASDR currently provides us, under the regulatory services agreement, NASDR will:

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review and approve new member applications;

perform automated surveillance of trading on The Nasdaq Stock Market;

review member firm compliance with the rules and regulations applicable to trading and market-making functions in The Nasdaq Stock Market;

investigate suspicious activity in quoting and trading on The Nasdaq Stock Market;

S-38

## **Table of Contents**

conduct examinations of member firms;

initiate the disciplinary process once it is determined that a potential violation of a federal securities law or rule, or an SRO rule, may have occurred; and

operate an arbitration program and a mediation program for the resolution of customer, member firm employee, and Nasdaq member-to-member disputes.

### *Series D Preferred Stock*

The SEC requires that NASD retain greater than 50% of the voting control over us. The one outstanding share of Series D Preferred Stock issued to NASD ensures that NASD maintains voting control until we meet SEC conditions to operate as an exchange and no longer rely on the NASD's SRO license. The voting power of the share of Series D Preferred Stock is recalculated for each matter presented to stockholders. NASD is entitled to cast the number of votes that, together with all other votes that NASD is entitled to vote by virtue of ownership, proxies or voting trusts, enables NASD to cast one vote more than one-half of all votes entitled to be cast by stockholders. Once we become operational as an exchange, the share of Series D Preferred Stock will automatically lose its voting rights and will be redeemed by us for \$1.00. See Risk Factors. 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 for more information.

### *Investor Rights Agreement*

In connection with our separation from NASD, in 2002 we entered into an investor rights agreement with NASD, pursuant to which we agreed to register the shares of common stock underlying the warrants referred to below issued by NASD in two private placements in 2000 and 2001.

### *Warrants and the Voting Trust Agreement*

In connection with our restructuring in 2000, NASD sold 10,806,494 warrants to purchase up to an aggregate of 43,225,976 outstanding shares of common stock owned by NASD. Each warrant issued by NASD entitles the holder to purchase one share in each of four one-year exercise periods. The first three exercise periods expired on June 27, 2003, June 25, 2004 and June 27, 2005, respectively. The fourth and final exercise period, during which the exercise price per share is \$16, will expire on June 27, 2006. As of April 13, 2006, holders have exercised warrants to purchase approximately 7.1 million shares of common stock, of which 3.4 million were sold in our prior public offering this year. The voting rights associated with the shares of common stock underlying the warrants, as well as the shares of common stock purchased through the valid exercise of warrants, are governed by the voting trust agreement entered into by us, NASD and The Bank of New York, as voting trustee.

Initially, the holders of the warrants will not have any voting rights with respect to the shares of common stock underlying such warrants. Until Nasdaq is operating as an exchange, the shares of common stock underlying unexercised and unexpired warrant tranches, as well as the shares of common stock purchased through the exercise of warrants, will be voted by the voting trustee at the direction of NASD. The voting rights associated with the shares of common stock underlying unexercised and expired warrant tranches will revert to NASD. However, NASD has determined, commencing at the time we meet SEC conditions to operate as an exchange, to vote any shares of common stock that it owns (other than shares underlying then outstanding warrants) in the same proportion as our other stockholders. As soon as Nasdaq meets these conditions, the warrant holders will have the right to direct the voting trustee as to the voting of the shares of common stock underlying unexercised and

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unexpired warrant tranches until the earlier of the exercise or the expiration of such warrant tranches. The shares of common stock purchased upon a valid exercise of a warrant tranche prior to our satisfaction of SEC conditions to operate as an exchange will be released from the voting trust agreement upon the earlier to occur of such time or the filing of a registration statement applicable to such shares underlying a

S-39

## **Table of Contents**

warrant. The shares of common stock purchased upon a valid exercise of a warrant tranche after our satisfaction of SEC conditions to operate as an exchange will not be subject to the voting trust agreement.

### *Defined-Benefit Pension Plan*

Prior to January 1, 2006, we were a participating employer in a noncontributory, defined-benefit pension plan that NASD sponsors for the benefit of its eligible employees and the eligible employees of its subsidiaries. The investment policy and strategy of the plan asset is established by the NASD Pension Plan Committee and reviewed on an annual basis, under the advisement of an investment consultant. For more information about the pension plan, please see Note 9, Employee Benefits, to our consolidated financial statements for the fiscal year ended December 31, 2005. As part of our separation from NASD, effective January 1, 2006, we adopted our own noncontributory, defined benefit pension plan and transferred Nasdaq participants in NASD's pension plan to our pension plan.

### *Leases*

We pay NASD and certain of its subsidiaries approximately \$5.8 million on an annual basis for the use of approximately 118,000 square feet of office space in multiple locations.

### *Sale of Building*

In June 2005, Nasdaq completed the sale of the building it owned in Rockville, Maryland to NASD for \$17.8 million. This facility was Nasdaq's disaster recovery site. Effective September 2005, Nasdaq relocated its disaster recovery site to a third party outsource facility.

### *Transfer of Responsibility for OTC Bulletin Board*

On October 1, 2005, Nasdaq transferred responsibility for the OTC Bulletin Board back to NASD. We sold all assets of the OTC Bulletin Board solely related to its operations to NASD in consideration for NASD's agreement to outsource the operation of the OTC Bulletin Board to us for an initial two year period, subject to one year renewals upon mutual consent, and the waiver by NASD of regulatory fees related to our operation of the OTC Bulletin Board before the transfer. NASD will pay us \$14.2 million in the first year and \$14.7 million in the second year for our services under the agreement, with payments in any subsequent periods to be subject to agreement among the parties.

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**Table of Contents****SHARES ELIGIBLE FOR FUTURE SALE**

As of April 13, 2006 we had 92,911,159 shares of common stock outstanding. All of these shares, including the shares sold in this offering, will be available for immediate sale in the public market as of the date of this prospectus supplement subject to the limitations described below. Any shares purchased by our affiliates, including NASD, may generally only be sold pursuant to a registration statement or an exemption from registration, including in compliance with the limitations of Rule 144 described below. As defined in Rule 144, an affiliate of an issuer is a person that directly, or indirectly, through one or more intermediaries, controls, is controlled by or is under common control with the issuer. Additionally, 14,201,625 of the shares of our common stock are not immediately available for sale because they are shares underlying unexercised and unexpired warrants issued by NASD or shares received upon exercise of warrants issued by NASD. We plan to register these shares for resale in May 2006. See Relationship with NASD Agreements and Arrangements with NASD Warrants and the Voting Trust Agreement. If any of the warrants expire without being exercised, then NASD will be able to sell any such underlying shares pursuant to a registration statement or an exemption from registration, including pursuant to the limitations of Rule 144 described below. In addition, approximately 30.7 million shares of our common stock issuable upon the conversion of our 3.75% convertible subordinated notes due October 2012 currently owned by SLP and Hellman & Friedman at a conversion price of \$14.50 per share are entitled to certain registration rights beginning in September 2006. The notes and the shares underlying the notes are not transferable without our consent until September 8, 2006. The warrants held by SLP and Hellman & Friedman, which are exercisable at a strike price of \$14.50 per share into 5.0 million shares of our common stock also possess registration rights. Finally, as of April 13, 2006, 3,791,391 of our options were exercisable.

**Lock-Up Agreements**

Pursuant to certain lock-up agreements, we and our executive officers and directors have agreed, subject to certain exceptions, not to offer, sell, contract to sell, announce any intention to sell, pledge or otherwise dispose of, directly or indirectly, or file with the SEC a registration statement under the Securities Act relating to, any common shares or securities convertible into or exchangeable or exercisable for any common shares without the prior written consent of Banc of America Securities LLC ( Banc of America ) for a period of 90 days after the date of the pricing of this offering. The 90-day restricted period will be automatically extended if (1) during the last 17 days of the 90-day restricted period the Company issues an earnings release or material news or a material event relating to the Company occurs or (2) prior to the expiration of the 90-day restricted period, the Company announces that it will release earnings results or becomes aware that material news or a material event will occur during the 16-day period beginning on the last day of the 90-day restricted period, in which case the restrictions described above will continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release or the occurrence of the material news or material event. The exceptions permit us, among other things and subject to restrictions, to: (a) issue common stock or options pursuant to employee benefit plans, (b) issue common stock upon exercise of outstanding options or warrants, or (c) issue securities in connection with acquisitions or similar transactions. The exceptions permit parties to the lock-up agreements, among other things and subject to restrictions, to: (a) participate in tenders involving the acquisition of a majority of our stock, (b) participate in transfers or exchanges involving common stock or securities convertible into common stock and (c) make certain gifts. In addition, the lock-up provision will not restrict broker-dealers from engaging in market making and similar activities conducted in the ordinary course of their business.

**Rule 144**

In general, under Rule 144 as currently in effect, a person who has beneficially owned restricted shares for at least one year, as well as any person who is an affiliate (as that term is defined in Rule 144), would be entitled to sell in any three-month period up to the greater of:

1% of the then-outstanding common shares immediately after this offering; and

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the average weekly trading volume of the common shares during the four calendar weeks preceding the filing of a Form 144 with respect to such sale.

S-41



## **Table of Contents**

Sales under Rule 144 are also subject to certain manner of sale and notice requirements and to the availability of current public information about us.

Under Rule 144(k), a person who has not been one of our affiliates during the preceding 90 days and who has beneficially owned the restricted shares for at least two years is entitled to sell them without complying with the manner of sale, public information, volume limitation, or notice provisions of Rule 144.

## **Registration Rights**

The Company has agreed to facilitate the registration of certain shares of common stock, including the shares underlying the NASD warrants, whether or not the warrants have been exercised, under the Securities Act in May 2006. We expect that the holders of approximately 14,201,625 shares of our common stock will be entitled to such registration. Additionally, approximately 30.7 million shares of our common stock issuable upon the conversion of our 3.75% convertible subordinated notes due October 2012, currently owned by SLP and Hellman & Friedman or their respective affiliates at a conversion price of \$14.50 per share, are entitled to certain registration rights, including demand rights. Finally, the 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, also possess registration rights, including demand rights. The holders of our convertible notes and the warrants will be entitled to the benefits of these registration rights as early as September 2006. If these shares are registered pursuant to these rights, they would become freely tradable immediately upon the effectiveness of the registration of such shares under the Securities Act, except for shares purchased by affiliates.

**Table of Contents**

**CERTAIN U.S. FEDERAL TAX CONSEQUENCES TO NON-U.S. HOLDERS**

The following is a general discussion of certain U.S. federal income and estate tax consequences of the purchase, ownership and disposition of our common stock. This discussion applies only to a non-U.S. holder (as defined below) of our common stock. This discussion is based upon the provisions of the Internal Revenue Code of 1986, as amended, or the Code, the Treasury regulations promulgated thereunder and administrative and judicial interpretations thereof, all as of the date hereof, all of which are subject to change, possibly with retroactive effect. This discussion is limited to investors that hold our common stock as capital assets for U.S. federal income tax purposes. Furthermore, this discussion does not address all aspects of U.S. federal income and estate taxation that may be applicable to investors in light of their particular circumstances, or to investors subject to special treatment under U.S. federal income or estate tax law, such as financial institutions, insurance companies, tax-exempt organizations, entities that are treated as partnerships for U.S. federal tax purposes, dealers in securities or currencies, expatriates, persons deemed to sell our common stock under the constructive sale provisions of the Code and persons that hold our common stock as part of a straddle, hedge, conversion transaction or other integrated investment. Furthermore, this discussion does not address any U.S. federal gift tax consequences or any state, local or foreign tax consequences. Prospective investors should consult their tax advisors regarding the U.S. federal, state, local and foreign income, estate and other tax consequences of the purchase, ownership and disposition of our common stock.

For purposes of this summary, the term **non-U.S. holder** means a beneficial owner of our common stock that is not, for U.S. federal income and estate tax purposes, (i) a citizen or resident of the United States, (ii) a corporation or other entity subject to tax as a corporation for such purposes that is created or organized under the laws of the United States or any political subdivision thereof, (iii) a partnership (including any entity or arrangement treated as a partnership for such purposes), (iv) an estate the income of which is subject to U.S. federal income taxation regardless of its source, or (v) a trust (A) if a court within the United States is able to exercise primary supervision over its administration and one or more U.S. persons have the authority to control all of its substantial decisions or (B) that has made a valid election to be treated as a U.S. person for such purposes. If a partnership (including any entity or arrangement treated as a partnership for such purposes) owns our common stock, the tax treatment of a partner in the partnership will depend upon the status of the partner and the activities of the partnership. Partners in a partnership that owns our common stock should consult their tax advisors as to the particular U.S. federal income and estate tax consequences applicable to them.

**Dividends**

Dividends paid to a non-U.S. holder generally will be subject to withholding of U.S. federal income tax at a 30% rate or such lower rate as may be specified by an applicable income tax treaty. Non-U.S. holders should consult their tax advisors regarding their entitlement to benefits under an applicable income tax treaty and the manner of claiming the benefits of such treaty. A non-U.S. holder that is eligible for a reduced rate of withholding tax under an income tax treaty may obtain a refund or credit of any excess amounts withheld by filing an appropriate claim for refund with the Internal Revenue Service.

Dividends that are effectively connected with a non-U.S. holder's conduct of a trade or business in the United States and, if certain income tax treaties apply, that are attributable to a non-U.S. holder's permanent establishment in the United States are not subject to the withholding tax described above but instead are subject to U.S. federal income tax on a net income basis at applicable graduated U.S. federal income tax rates. A non-U.S. holder must satisfy certain certification requirements for its effectively connected dividends to be exempt from the withholding tax described above. Dividends received by a foreign corporation that are effectively connected with its conduct of a trade or business in the United States may be subject to an additional branch profits tax at a 30% rate or such lower rate as may be specified by an applicable income tax treaty.

## **Table of Contents**

### **Gain on Disposition of Common Stock**

A non-U.S. holder generally will not be taxed on gain recognized on a disposition of our common stock unless:

the non-U.S. holder is an individual who holds our common stock as a capital asset, is present in the United States for 183 days or more during the taxable year of the disposition and meets certain other conditions;

the gain is effectively connected with the non-U.S. holder's conduct of a trade or business in the United States and, if certain income tax treaties apply, is attributable to a Non-U.S. Holder's permanent establishment in the United States; or

we are or have been a United States real property holding corporation for U.S. federal income tax purposes at any time within the shorter of the five-year period ending on the date of disposition or the period that the non-U.S. holder held our common stock. We do not believe that we have been, currently are, or will become, a United States real property holding corporation. If we were or were to become a United States real property holding corporation at any time during the applicable period, however, any gain recognized on a disposition of our common stock by a non-U.S. Holder that did not own (directly, indirectly or constructively) more than 5% of our common stock during the applicable period would not be subject to U.S. federal income tax, provided that our common stock is regularly traded on an established securities market (within the meaning of Section 897(c)(3) of the Code).

Individual non-U.S. holders who are subject to U.S. federal income tax because the holders were present in the United States for 183 days or more during the year of disposition are taxed on their gains (including gains from the sale of our common stock and net of applicable U.S. losses from sales or exchanges of other capital assets recognized during the year) at a flat rate of 30% or such lower rate as may be specified by an applicable income tax treaty. Other non-U.S. holders subject to U.S. federal income tax with respect to gain recognized on the disposition of our common stock generally will be taxed on any such gain on a net income basis at applicable graduated U.S. federal income tax rates and, in the case of foreign corporations, the branch profits tax discussed above also may apply.

### **Federal Estate Tax**

Our common stock that is owned or treated as owned by an individual who is a non-U.S. holder at the time of death will be included in the individual's gross estate for U.S. federal estate tax purposes, and, therefore, U.S. federal estate tax may be imposed with respect to the value of such stock, unless an applicable estate tax or other treaty provides otherwise.

### **Information Reporting and Backup Withholding**

In general, backup withholding will apply to dividends on our common stock paid to a non-U.S. holder, unless the holder has provided the required certification that it is a non-U.S. holder and the payor does not have actual knowledge (or reason to know) that the holder is a U.S. person. Generally, information will be reported to the Internal Revenue Service regarding the amount of dividends paid, the name and address of the recipient, and the amount, if any, of tax withheld. These information reporting requirements apply even if no tax was required to be withheld. A similar report is sent to the recipient of the dividend.

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In general, backup withholding and information reporting will apply to the payment of proceeds from the disposition of our common stock by a non-U.S. holder through a U.S. office of a broker or through the non-U.S. office of a broker that is a U.S. person or has certain enumerated connections with the United States, unless the holder has provided the required certification that it is a non-U.S. holder and the payor does not have actual knowledge (or reason to know) that the holder is a U.S. person.

S-44

**Table of Contents**

Backup withholding is not an additional tax. Any amounts that are withheld under the backup withholding rules from a payment to a non-U.S. holder will be refunded or credited against the holder's U.S. federal income tax liability, if any, provided that certain required information is furnished to the Internal Revenue Service.

Non-U.S. holders should consult their tax advisors regarding the application of the information reporting and backup withholding rules to them.

S-45

**Table of Contents****UNDERWRITING**

We are offering the shares of common stock described in this prospectus supplement through a number of underwriters. Banc of America Securities LLC and Credit Suisse Securities (USA) LLC are the representatives of the underwriters. We have entered into a firm commitment underwriting agreement with the representatives. Subject to the terms and conditions of the underwriting agreement, we have agreed to sell to the underwriters, and each underwriter has agreed to purchase, the number of shares of common stock listed next to its name in the following table:

| <b>Underwriter</b>                 | <b>Number of Shares</b> |
|------------------------------------|-------------------------|
| Banc of America Securities LLC     | 7,400,000               |
| Credit Suisse Securities (USA) LLC | 6,475,000               |
| Bear, Stearns & Co. Inc.           | 1,156,250               |
| UBS Securities LLC                 | 1,156,250               |
| Cowen & Co., LLC                   | 462,500                 |
| Keefe, Bruyette & Woods, Inc.      | 462,500                 |
| Sandler O'Neill & Partners, L.P.   | 462,500                 |
| Thomas Weisel Partners LLC         | 462,500                 |
| Wachovia Capital Markets LLC       | 462,500                 |
| <b>Total</b>                       | <b>18,500,000</b>       |

The underwriting agreement is subject to a number of terms and conditions and provides that the underwriters must buy all of the shares if they buy any of them. The underwriters will sell the shares to the public when and if the underwriters buy the shares from us.

The underwriters initially will offer the shares to the public at the price specified on the cover page of this prospectus supplement. The underwriters may allow a concession of not more than \$0.8406 per share to selected dealers. If all the shares are not sold at the public offering price, the underwriters may change the public offering price and the other selling terms. The common stock is offered subject to a number of conditions, including:

receipt and acceptance of the common stock by the underwriters; and

the underwriters' right to reject orders in whole or in part.

*Overallocation Option to Purchase Additional Shares.* We have granted the underwriters an overallocation option to purchase up to 2,775,000 additional shares of our common stock at the same price per share as they are paying for the shares shown in the table above. These additional shares would cover sales by the underwriters which exceed the total number of shares shown in the table above. The underwriters may exercise this overallocation option at any time and from time to time, in whole or in part, within 30 days after the date of this prospectus supplement. To the extent that the underwriters exercise this overallocation option, each underwriter will purchase additional shares from us in approximately the same proportion as it purchased the shares shown in the table above. We will pay the expenses associated with the exercise of this overallocation option.

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*Discount and Commissions.* The following table shows the per share and total underwriting discounts and commissions to be paid to the underwriters by us. These amounts are shown assuming no exercise and full exercise of the underwriters' overallotment option.

S-46

**Table of Contents**

We estimate that the expenses of the offering to be paid by us, not including underwriting discounts and commissions, will be approximately \$750,000.

|           | <b>Paid by Us</b>  |                      |
|-----------|--------------------|----------------------|
|           | <b>No Exercise</b> | <b>Full Exercise</b> |
| Per Share | \$ 1.401           | \$ 1.401             |
| Total     | \$ 25,918,500      | \$ 29,806,275        |

*Listing.* Our common stock is quoted on the Nasdaq National Market under the symbol **NDAQ**.

*Stabilization.* In connection with this offering, the underwriters may engage in activities that stabilize, maintain or otherwise affect the price of our common stock, including:

stabilizing transactions;

short sales;

syndicate covering transactions; and

purchases to cover positions created by short sales.

Stabilizing transactions consist of bids or purchases made for the purpose of preventing or retarding a decline in the market price of our common stock while this offering is in progress. Stabilizing transactions may include making short sales of our common stock, which involves the sale by the underwriters of a greater number of shares of common stock than they are required to purchase in this offering, and purchasing shares of common stock from us or on the open market to cover positions created by short sales. Short sales may be covered shorts, which are short positions in an amount not greater than the underwriters' overallotment option referred to above, or may be naked shorts, which are short positions in excess of that amount. Syndicate covering transactions involve purchases of our common stock in the open market after the distribution has been completed in order to cover syndicate short positions.

The underwriters may close out any covered short position either by exercising their overallotment option, in whole or in part, or by purchasing shares in the open market. In making this determination, the underwriters will consider, among other things, the price of shares available for purchase in the open market compared to the price at which the underwriters may purchase shares through the overallotment option.

A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the common stock in the open market that could adversely affect investors who purchased in this offering. To the extent that the underwriters create



a naked short position, they will purchase shares in the open market to cover the position.

These activities may have the effect of raising or maintaining the market price of our common stock or preventing or retarding a decline in the market price of our common stock. As a result of these activities, the price of our common stock may be higher than the price that otherwise might exist in the open market. If the underwriters commence the activities, they may discontinue them at any time. The underwriters may carry out these transactions on the Nasdaq National Market, in the over-the-counter market or otherwise.

In connection with this offering, some underwriters and any selling group members who are qualified market makers on the Nasdaq National Market may engage in passive market making transactions in our common stock on the Nasdaq National Market. Passive market making is allowed during the period when the SEC's rules would otherwise prohibit market activity by the underwriters and dealers who are participating in this offering. Passive market making may occur during the business day before the pricing of this offering, before the commencement of offers or sales of the common stock. A passive market maker must comply with applicable

## Table of Contents

volume and price limitations and must be identified as a passive market maker. In general, a passive market maker must display its bid at a price not in excess of the highest independent bid for our common stock; but if all independent bids are lowered below the passive market maker's bid, the passive market maker must also lower its bid once it exceeds specified purchase limits. Net purchases by a passive market maker on each day are limited to a specified percentage of the passive market maker's average daily trading volume in our common stock during the specified period and must be discontinued when that limit is reached. Passive market making may cause the price of our common stock to be higher than the price that otherwise would exist in the open market in the absence of those transactions. The underwriters and dealers are not required to engage in a passive market making and may end passive market making activities at any time.

*Lock-up Agreements.* Pursuant to certain lock-up agreements, our executive officers and directors have agreed, subject to certain exceptions, not to offer, sell, contract to sell, announce any intention to sell, pledge or otherwise dispose of, directly or indirectly, or file with the SEC a registration statement under the Securities Act relating to, any common shares or securities convertible into or exchangeable or exercisable for any common shares without the prior written consent of Banc of America Securities LLC for a period of 90 days after the date of the date of the pricing of this offering. The 90-day restricted period will be automatically extended if (1) during the last 17 days of the 90-day restricted period the Company issues an earnings release or material news or a material event relating to the Company occurs or (2) prior to the expiration of the 90-day restricted period, the Company announces that it will release earnings results or becomes aware that material news or a material event will occur during the 16-day period beginning on the last day of the 90-day restricted period, in which case the restrictions described above will continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release or the occurrence of the material news or material event. Specifically, we and these other individuals have agreed not to directly or indirectly:

offer, pledge, sell, or contract to sell any common stock;

sell any option or contract to purchase any common stock;

purchase any option or contract to sell any common stock;

grant any option, right or warrant for the sale of any common stock;

lend or otherwise dispose of or transfer any common stock;

request or demand that we file a registration statement related to the common stock; or

enter into any swap or other agreement that transfers, in whole or in part, the economic consequence of ownership of any common stock whether any such swap or transaction is to be settled by delivery of shares or other securities, in cash or otherwise.

This lock-up provision applies to common stock and to securities convertible into or exchangeable or exercisable for or repayable with common stock. It also applies to common stock owned now or acquired later by the person executing the agreement or for which the person executing the agreement later acquires the power of disposition. The exceptions permit us, among other things and subject to restrictions, to: (a) issue common stock or options pursuant to employee benefit plans, (b) issue common stock upon exercise of outstanding options or warrants, or (c) issue securities in connection with acquisitions or similar transactions. The exceptions permit parties to the lock-up agreements, among other things and subject to restrictions to: (a) participate in tenders involving the acquisition of a majority of our stock, (b) participate in transfers or exchanges involving common stock or securities convertible into common stock and (c) make certain gifts. Additionally, the lock-up provision will not restrict broker-dealers from engaging in market making and similar activities conducted in the ordinary course of their business.

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*Selling Restrictions.* The underwriter intends to comply with all applicable laws and regulations in each jurisdiction in which it acquires, offers, sells or delivers shares of common stock or has in its possession or distributes the prospectus supplement.

S-48

## Table of Contents

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a Relevant Member State ), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the Relevant Implementation Date ) an offer of shares of common stock to the public may not be made in that Relevant Member State prior to the publication of a prospectus in relation to shares of common stock which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that it may, with effect from and including the Relevant Implementation Date, make an offer of shares of common stock to the public in that Relevant Member State at any time:

- (a) to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- (b) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than 43,000,000 and (3) an annual net turnover of more than 50,000,000, as shown in its last annual or consolidated accounts; or
- (c) in any other circumstances which do not require the publication by the Issuer of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an offer of shares of common stock to the public in relation to any shares of common stock in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the shares of common stock to be offered so as to enable an investor to decide to purchase or subscribe shares of common stock, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

No prospectus (including any amendment, supplement or replacement thereto) has been prepared in connection with the offering of shares of common stock that has been approved by the *Autorité des marchés financiers* or by the competent authority of another State that is a contracting party to the Agreement on the European Economic Area and notified to the *Autorité des marchés financiers*; no shares of common stock have been offered or sold and will be offered or sold, directly or indirectly, to the public in France except to permitted investors ( Permitted Investors ) consisting of persons licensed to provide the investment service of portfolio management for the account of third parties, qualified investors (*investisseurs qualifiés*) acting for their own account and/or investors belonging to a limited circle of investors (*cercle restreint d'investisseurs*) acting for their own account, with qualified investors and limited circle of investors having the meaning ascribed to them in Articles L. 411-2, D. 411-1, D. 411-2, D. 734-1, D. 744-1, D. 754-1 and D. 764-1 of the French *Code Monétaire et Financier* and applicable regulations thereunder; none of this prospectus supplement, the accompanying prospectus, or any other materials related to the offering or information contained therein relating to the shares of common stock has been released, issued or distributed to the public in France except to Permitted Investors; and the direct or indirect resale to the public in France of any shares of common stock acquired by any Permitted Investors may be made only as provided by Articles L. 411-1, L. 411-2, L. 412-1 and L. 621-8 to L. 621-8-3 of the French *Code Monétaire et Financier* and applicable regulations thereunder.

Each underwriter acknowledges and agrees that:

- (i) it has not offered or sold and will not offer or sell shares of common stock other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the shares of common stock would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act 2000 (the FSMA ) by the Issuer;



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**Table of Contents**

- (ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the shares of common stock in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (iii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the shares of common stock in, from or otherwise involving the United Kingdom.

This document is only being distributed to and is only directed at (i) persons who are outside the United Kingdom or (ii) to investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the Order) or (iii) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as relevant persons). The shares of common stock are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such shares of common stock will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

The offering of the shares of common stock has not been cleared by the Italian Securities Exchange Commission (Commissione Nazionale per le Società e la Borsa, the CONSOB) pursuant to Italian securities legislation and, accordingly, has represented and agreed that the shares of common stock may not and will not be offered, sold or delivered, nor may or will copies of the prospectus supplement and accompanying prospectus or any other documents relating to the shares of common stock or the prospectus supplement and accompanying prospectus be distributed in Italy, except (i) to professional investors (*operatori qualificati*), as defined in Article 31, second paragraph, of CONSOB Regulation No. 11522 of July 1, 1998, as amended, (the Regulation No. 11522), or (ii) in other circumstances which are exempted from the rules on solicitation of investments pursuant to Article 100 of Legislative Decree No. 58 of February 24, 1998 (the Financial Service Act) and Article 33, first paragraph, of CONSOB Regulation No. 11971 of May 14, 1999, as amended.

Any offer, sale or delivery of the shares of common stock or distribution of copies of the prospectus supplement and accompanying prospectus or any other document relating to the shares of common stock or the prospectus supplement and accompanying prospectus in Italy may and will be effected in accordance with all Italian securities, tax, exchange control and other applicable laws and regulations, and, in particular, will be: (i) made by an investment firm, bank or financial intermediary permitted to conduct such activities in Italy in accordance with the Financial Services Act, Legislative Decree No. 385 of September 1, 1993, as amended (the Italian Banking Law), Regulation No. 11522, and any other applicable laws and regulations; (ii) in compliance with Article 129 of the Italian Banking Law and the implementing guidelines of the Bank of Italy; and (iii) in compliance with any other applicable notification requirement or limitation which may be imposed by CONSOB or the Bank of Italy.

Any investor purchasing the shares of common stock in the offering is solely responsible for ensuring that any offer or resale of the shares of common stock it purchased in the offering occurs in compliance with applicable laws and regulations.

The prospectus supplement and the information contained therein are intended only for the use of its recipient and, unless in circumstances which are exempted from the rules on solicitation of investments pursuant to Article 100 of the Financial Service Act and Article 33, first paragraph, of CONSOB Regulation No. 11971 of May 14, 1999, as amended, is not to be distributed, for any reason, to any third party resident or located in Italy. No person resident or located in Italy other than the original recipients of this document may rely on it or its content.

Italy has only partially implemented the Prospectus Directive, the provisions under the heading European Economic Area shall apply with respect to Italy only to the extent that the relevant provisions of the Prospectus Directive have already been implemented in Italy.



**Table of Contents**

Insofar as the requirements above are based on laws which are superseded at any time pursuant to the implementation of the Prospectus Directive, such requirements shall be replaced by the applicable requirements under the Prospectus Directive

*Indemnification.* We will indemnify the underwriters against some liabilities, including liabilities under the Securities Act. If we are unable to provide this indemnification, we will contribute to payments the underwriters may be required to make in respect of those liabilities.

*Online Offering.* A prospectus supplement with the accompanying prospectus in electronic format may be made available on the web sites maintained by one or more of the underwriters participating in this offering. Other than the prospectus supplement with the accompanying prospectus in electronic format, the information on any such web site, or accessible through any such web site, is not part of the prospectus supplement or accompanying prospectus. The representatives may agree to allocate a number of shares to underwriters for sale to their online brokerage account holders. Internet distributions will be allocated by the underwriters that will make internet distributions on the same basis as other allocations. In addition, shares may be sold by the underwriters to securities dealers who resell shares to online brokerage account holders.

*Conflicts/Affiliates.* The underwriters and their affiliates have provided, and may in the future provide, various investment banking, commercial banking and other financial services for us and our affiliates for which services they have received, and may in the future receive, customary fees. Thomas Weisel Partners, LLC represented us in connection with the acquisition of INET. Also, Keefe, Bruyette & Woods, Inc. acted as financial advisor to Nasdaq in connection with certain activities related to the financing for the INET acquisition. In addition, one of our directors is a partner of Sandler O'Neill & Partners, L.P. and one of our directors is a managing director of UBS Securities LLC. In addition, Banc of America Securities LLC and its affiliates and some of the other underwriters and their affiliates have owned, currently own or may own, equity or equity-like securities of us. An affiliate of Banc of America Securities LLC is an agent and a lender under our credit agreement. As a lender under our credit agreement, such affiliate shall be receiving all of the net proceeds of this offering of our common stock that is being used to pay down our credit agreements. Because an affiliate of Banc of America Securities LLC will receive more than 10% of the net proceeds of the offering, the offering is being conducted in accordance with NASD Conduct Rule 2710(h).



**Table of Contents**

**LEGAL MATTERS**

The validity of the shares of common stock being offered hereby has been passed upon for Nasdaq by Skadden, Arps, Slate, Meagher & Flom LLP, New York, New York. Certain legal matters in connection with the offering will be passed upon for the underwriters by Fried, Frank, Harris, Shriver & Jacobson LLP, New York, New York.

**WHERE YOU CAN FIND MORE INFORMATION**

We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission (SEC). You may read and copy these documents at the SEC's public reference room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference room. Our SEC filings are also available over the Internet at the SEC's website at <http://www.sec.gov>. Our common stock is quoted on the Nasdaq National Market under the trading symbol NDAQ.

We incorporate by reference any filings made with the SEC in accordance with Sections 13(a), 13(c), 14, or 15(d) of the Securities Exchange Act of 1934 on or after the date of this prospectus and before the termination of the offering.

You may request a copy of these filings, at no cost, by writing, telephoning or emailing us as follows: Investor Relations, The Nasdaq Stock Market, Inc., One Liberty Plaza, New York, New York 10006, (212) 401-8700, email: [investor.relations@nasdaq.com](mailto:investor.relations@nasdaq.com).

**DOCUMENTS INCORPORATED BY REFERENCE**

The SEC allows incorporation by reference into this prospectus of information that we file with the SEC. This permits us to disclose important information to you by referencing these filed documents. Any information referenced this way is considered to be a part of this prospectus and any information filed by us with the SEC subsequent to the date of this prospectus will automatically be deemed to update and supersede this information. We incorporate by reference the following documents which we have filed with the SEC:

our Annual Report on Form 10-K for the year ended December 31, 2005, which we filed with the SEC on March 15, 2006;

our Definitive Proxy Statement, which we filed with the SEC on April 21, 2006;

our Current Reports on Form 8-K, which we filed with the SEC on January 27, 2006, February 9, 2006, February 15, 2006, February 22, 2006, March 8, 2006, March 14, 2006, April 4, 2006, April 17, 2006 and April 19, 2006; and

the description of our common stock contained in Amendment No. 5 to our Registration Statement on Form 10 (File No. 000-32651) filed on November 19, 2001.

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All documents and reports that we file with the SEC pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended, after the date hereof and prior to the date we sell all of the shares of common stock offered by this prospectus supplement shall be deemed incorporated into this prospectus supplement.

You should only rely on the information contained in this prospectus supplement, the documents incorporated by reference. Information in this prospectus supplement supersedes information incorporated by reference that we filed with the SEC prior to the date of this prospectus supplement, while information that we

S-52

**Table of Contents**

file later will automatically supersede the information in this prospectus supplement. Any statement that is modified or superseded shall not, except as so modified or superseded, constitute a part of this prospectus supplement.

We will provide without charge to each person to whom this prospectus supplement is delivered, upon written or oral request, a copy of any and all of the documents that have been or may be incorporated by reference in this prospectus supplement. You should direct requests for documents to: Investor Relations, The Nasdaq Stock Market, Inc., One Liberty Plaza, New York, New York 10006, (212) 401-8700, email: investor.relations@nasdaq.com.

**EXPERTS**

The consolidated financial statements of The Nasdaq Stock Market, Inc. appearing in The Nasdaq Stock Market, Inc.'s Annual Report (Form 10-K) for the year ended December 31, 2005 (including schedules appearing therein), and The Nasdaq Stock Market, Inc.'s management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2005 included therein, have been audited by Ernst & Young LLP, independent registered public accounting firm. Such financial statements and management's assessment have been incorporated herein by reference in reliance upon such reports given on the authority of such firm as experts in accounting and auditing.

The audited historical consolidated financial statements of Instinet Group Incorporated included in Exhibit 99.1 of The Nasdaq Stock Market, Inc.'s Current Report on Form 8-K/A dated January 27, 2006 have been so incorporated in reliance on the report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

**Table of Contents**

**PROSPECTUS**

**THE NASDAQ STOCK MARKET, INC.**

The following are types of securities that we may offer, issue and sell from time to time, together or separately:

debt securities, which may be senior debt securities or subordinated debt securities;

shares of our preferred stock;

shares of our common stock; and

warrants to purchase debt or equity securities.

This prospectus describes some of the general terms that may apply to these securities. The specific terms of any securities to be offered will be described in supplements to this prospectus. The prospectus supplements may also add, update, or change information contained in this prospectus. This prospectus may not be used to offer and sell securities unless accompanied by a prospectus supplement. You should read this prospectus and the applicable prospectus supplement carefully before you make your investment decision.

We may offer and sell these securities through one or more underwriters, dealers and agents, through underwriting syndicates managed or co-managed by one or more underwriters, or directly to purchasers, on a continuous or delayed basis.

To the extent that any selling securityholder resells any securities, the selling securityholder may be required to provide you with this prospectus and a prospectus supplement identifying and containing specific information about the selling securityholder and the terms of the securities being offered.

The prospectus supplement for each offering of securities will describe in detail the plan of distribution for that offering. Our common stock is quoted on the Nasdaq National Market under the trading symbol NDAQ. Each prospectus supplement will indicate if the securities offered thereby will be listed on any securities exchange.

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

The date of this prospectus is January 30, 2006

**Table of Contents**

**TABLE OF CONTENTS**

|  | <b><u>Page</u></b> |
|--|--------------------|
| <u>About This Prospectus</u>               | 1                  |
| <u>Where You Can Find More Information</u> | 1                  |
| <u>The NASDAQ Stock Market</u>             | 3                  |
| <u>Ratio of Earnings To Fixed Charges</u>  | 4                  |
| <u>Use of Proceeds</u>                     | 4                  |
| <u>Description of Securities</u>           | 5                  |
| <u>Description of Debt Securities</u>      | 5                  |
| <u>Description of Common Stock</u>         | 6                  |
| <u>Description of Preferred Stock</u>      | 7                  |
| <u>Description of Warrants</u>             | 8                  |
| <u>Legal Matters</u>                       | 9                  |
| <u>Experts</u>                             | 9                  |

Unless otherwise stated or the context otherwise requires, references in this prospectus to Nasdaq, we, our, or us refer to The Nasdaq Stock Market, Inc., and its direct and indirect subsidiaries.

**Table of Contents**

**ABOUT THIS PROSPECTUS**

This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission using a shelf registration process. Under this shelf process, we may, from time to time, sell any combination of debt securities, preferred stock, common stock and warrants, as described in this prospectus, in one or more offerings.

This prospectus provides you with a general description of the securities we may offer. Each time we sell securities, we will provide a prospectus supplement that will contain specific information about the terms of that offering, including the specific amounts, prices and terms of the securities offered. The prospectus supplements may also add, update or change information contained in this prospectus. You should read both this prospectus and any prospectus supplement together with additional information described under the heading **Where You Can Find More Information**.

To the extent that this prospectus is used by any selling securityholder to resell any securities, information with respect to the selling securityholder and the terms of the securities being offered will be contained in a prospectus supplement.

You should rely on the information contained or incorporated by reference in this prospectus. We have not authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted.

You should assume that the information in this prospectus is accurate as of the date of the prospectus. Our business, financial condition, results of operations and prospects may have changed since that date.

**WHERE YOU CAN FIND MORE INFORMATION**

We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission (SEC). You may read and copy these documents at the SEC's public reference room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference room. Our SEC filings are also available over the Internet at the SEC's website at <http://www.sec.gov>. Our common stock is quoted on the Nasdaq National Market under the trading symbol **NDAQ**.

The SEC allows incorporation by reference into this prospectus of information that we file with the SEC. This permits us to disclose important information to you by referencing these filed documents. Any information referenced this way is considered to be a part of this prospectus and any information filed by us with the SEC subsequent to the date of this prospectus will automatically be deemed to update and supersede this information. We incorporate by reference the following documents which we have filed with the SEC:

our Annual Report on Form 10-K for the year ended December 31, 2004, which we filed with the SEC on March 14, 2005;

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our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2005, June 30, 2005 and September 30, 2005, which we filed with the SEC on May 10, 2005, as amended on May 13, 2005, August 9, 2005 and November 8, 2005, respectively;

our Current Reports on Form 8-K, which we filed with the SEC on January 25, 2005, February 11, 2005, March 8, 2005, March 29, 2005, April 27, 2005, April 28, 2005, May 13, 2005, June 13, 2005, June 16, 2005, September 1, 2005, September 9, 2005, November 30, 2005, December 2, 2005, December 14, 2005, December 20, 2005, January 9, 2006, January 12, 2006 and January 24, 2006;

our Current Report on Form 8-K/A, which we filed with the SEC on January 27, 2006;



**Table of Contents**

those portions of our definitive Proxy Statement for the 2005 Annual Meeting of Stockholders that are incorporated by reference in our Form 10-K; and

the description of our common stock contained in Amendment No. 5 to our Registration Statement on Form 10 (File No. 000-32651) filed on November 19, 2001.

We incorporate by reference any filings made with the SEC in accordance with Sections 13(a), 13(c), 14, or 15(d) of the Securities Exchange Act of 1934 on or after the date of this prospectus and before the termination of the offering.

You may request a copy of these filings, at no cost, by writing, telephoning or emailing us as follows: Investor Relations, The Nasdaq Stock Market, Inc., One Liberty Plaza, New York, New York 10006, (212) 401-8700, email: [investor.relations@nasdaq.com](mailto:investor.relations@nasdaq.com).

**Table of Contents**

**THE NASDAQ STOCK MARKET**

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. 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 stock exchanges. We manage, operate and provide our products and services in two business segments, our Issuer Services segment and our Market Services segment.

**Table of Contents****RATIO OF EARNINGS TO FIXED CHARGES**

The following table sets forth our ratio of earnings to fixed charges for the periods indicated:

|  | Nine                             |                         |                     |      |       |                     |
|--|----------------------------------|-------------------------|---------------------|------|-------|---------------------|
|  | Months<br>Ended<br>September 30, | Year Ended December 31, |                     |      |       |                     |
|  | 2005 <sup>(2)</sup>              | 2004 <sup>(3)</sup>     | 2003 <sup>(4)</sup> | 2002 | 2001  | 2000 <sup>(5)</sup> |
| Ratio of Earnings to Fixed Charges <sup>(1)</sup> :              | 7.23                             | 1.22                    | (2.48)              | 6.59 | 10.80 | 17.87               |
| Ratio of Earnings to Fixed Charges and Preferred Stock Dividends | 6.01                             | 0.71                    | (1.73)              | 6.59 | 10.80 | 17.87               |

<sup>(1)</sup> For purposes of this calculation, earnings are defined as pre-tax income from continuing operations before minority interests plus interest and related expenses. Fixed charges are the sum of interest and related expenses.

<sup>(2)</sup> Includes costs of \$17.9 million associated with Nasdaq's 2005 cost reductions.

<sup>(3)</sup> Includes costs of \$62.6 million associated with Nasdaq's 2004 cost reductions.

<sup>(4)</sup> Includes costs of \$97.9 million associated with Nasdaq's strategic review in 2003.

<sup>(5)</sup> Adjusted for cumulative effect of change in accounting principle of \$169.0 million.

**USE OF PROCEEDS**

Unless otherwise set forth in a prospectus supplement, we intend to use the net proceeds of any offering of securities sold by us for general corporate purposes, which may include acquisitions, repayment of debt, capital expenditures and working capital. When a particular series of securities is offered, the prospectus supplement relating to that offering will set forth our intended use of the net proceeds received from the sale of those securities. The net proceeds may be invested temporarily in short-term marketable securities or applied to repay short-term debt until they are used for their stated purpose.

Unless otherwise set forth in a prospectus supplement, we will not receive any proceeds in the event that the securities are sold by a selling securityholder.

**Table of Contents**

**DESCRIPTION OF SECURITIES**

This prospectus contains summary descriptions of the debt securities, common stock, preferred stock, and warrants that we may sell from time to time. These summary descriptions are not meant to be complete descriptions of each security. The particular terms of any security will be described in the related prospectus supplement.

**DESCRIPTION OF DEBT SECURITIES**

The debt securities will either be senior debt securities or subordinated debt securities. Senior debt securities will be issued under a senior indenture and subordinated debt securities will be issued under a subordinated indenture. Unless otherwise specified in the applicable prospectus supplement, the trustee under the indentures will be The Bank of New York. The forms of indentures are filed as exhibits to the registration statement of which this prospectus forms a part. We will include in a supplement to this prospectus the specific terms of each series of debt securities being offered, including the terms, if any, on which a series of debt securities may be convertible into or exchangeable for our common stock, preferred stock or other debt securities. The statements and descriptions in this prospectus or in any prospectus supplement regarding provisions of the indentures and debt securities are summaries thereof, do not purport to be complete and are subject to, and are qualified in their entirety by reference to, all of the provisions of the indentures (and any amendments or supplements we may enter into from time to time which are permitted under each indenture) and the debt securities, including the definitions therein of certain terms.

Unless otherwise specified in a prospectus supplement, the debt securities will be direct unsecured obligations of The Nasdaq Stock Market, Inc. and will not be guaranteed by any of our subsidiaries. The senior debt securities will rank equally with any of our other senior and unsubordinated debt. The subordinated debt securities will be subordinate and junior in right of payment to any senior indebtedness. The indentures do not limit the aggregate principal amount of debt securities that we may issue and provide that we may issue debt securities from time to time in one or more series, in each case with the same or various maturities, at par or at a discount. Unless indicated in a prospectus supplement, we may issue additional debt securities of a particular series without the consent of the holders of the debt securities of such series outstanding at the time of the issuance. Any such additional debt securities, together with all other outstanding debt securities of that series, will constitute a single series of debt securities under the applicable indenture.

**Table of Contents**

**DESCRIPTION OF COMMON STOCK**

**General**

As of December 31, 2005, we are authorized to issue up to 300,000,000 shares of common stock. Mellon Investor Services is the transfer agent and registrar for our common stock. Shares of common stock are quoted on the Nasdaq National Market under the trading symbol NDAQ.

The holders of common stock are entitled to one vote per share on all matters to be voted upon by the stockholders except that any person, other than NASD or any other person as may be approved for such exemption by the board of directors prior to the time such person owns more than 5% of the then outstanding shares of common stock, who otherwise would be entitled to exercise voting rights in respect of more than 5% of the then outstanding shares of common stock will be unable to exercise voting rights in respect of any shares in excess of 5% of the then outstanding shares of common stock. At any meeting of our stockholders, a majority of the votes entitled to be cast (currently, the common stock, Series D Preferred Stock and 3.75% convertible subordinated notes due 2012) will constitute a quorum for such meeting. Additionally, in response to the SEC's concern about a concentration of our ownership, our exchange registration application includes a rule that, effective upon exchange registration, prohibits any member of Nasdaq or a person associated with such member from beneficially owning more than 5% of the outstanding shares of common stock.

Under the certificate of incorporation, our board of directors may waive the application of the 5% voting limitation to persons other than brokers, dealers, their affiliates, and persons subject to statutory disqualification under Section 3(a)(39) of the Exchange Act. In the event that the board of directors approves an exemption from the 5% voting limitation (other than an exemption granted in connection with a strategic market alliance) and seeks the concurrence of the SEC with respect thereto, we have agreed to grant Hellman & Friedman and Silver Lake Partners, holders of our 3.75% convertible subordinated notes, a comparable exemption from such limitation and to use our best efforts to obtain SEC concurrence of such exemption. At our 2005 Annual Meeting of Stockholders, stockholders approved an amendment to the certificate of incorporation granting each of the holders of the convertible notes the right to vote with the holders of common stock and Series D Preferred Stock on matters submitted to a vote of stockholders, subject to the 5% voting limitation.

Holders of common stock are entitled to receive ratably such dividends, if any, as may be declared from time to time by the board of directors out of funds legally available for them. In the event of liquidation, dissolution, or winding-up of Nasdaq, the holders of common stock are entitled to share ratably in all assets remaining after payment of liabilities, subject to prior distribution rights of preferred stock, if any, then outstanding. The common stock has no preemptive or conversion rights or other subscription rights. There are no redemption or sinking fund provisions applicable to the common stock. All outstanding shares of common stock are fully paid and non-assessable, and the shares of common stock to be issued upon completion of this offering will be fully paid and non-assessable. We have not declared or paid cash dividends on our common stock. We currently do not intend to pay any cash dividends on our common stock. Rather, we currently plan to retain any future earnings for funding our growth. Future dividends, if any, will be determined by our board of directors.

This summary is not meant to be complete. You should refer to the applicable provision of our charter and by-laws and to Delaware corporate law for a complete statement of the terms and rights of our common stock.

**Table of Contents**

**DESCRIPTION OF PREFERRED STOCK**

The board of directors may provide by resolution for the issuance of preferred stock, in one or more series, and to fix the powers, preferences, and rights, and the qualifications, limitations, and restrictions thereof, of this preferred stock, including dividend rights, conversion rights, voting rights, terms of redemption, liquidation preferences, sinking fund provisions, if any, and the number of shares constituting any series or the designation of such series. The issuance of preferred stock could have the effect of decreasing the market price of the common stock and could adversely affect the voting and other rights of the holders of common stock.

We will include in a prospectus supplement the terms relating to any series of preferred stock being offered. These terms will include some or all of the following:

the title of the series and the number of shares in the series;

the price at which the preferred stock will be offered;

the dividend rate or rates or method of calculating the rates, the dates on which the dividends will be payable, whether or not dividends will be cumulative or noncumulative and, if cumulative, the dates from which dividends on the preferred stock being offered will cumulate;

the voting rights, if any, of the holders of shares of the preferred stock being offered;

the provisions for a sinking fund, if any, and the provisions for redemption, if applicable, of the preferred stock being offered;

the liquidation preference per share;

the terms and conditions, if applicable, upon which the preferred stock being offered will be convertible into our common stock, including the conversion price, or the manner of calculating the conversion price, and the conversion period;

the terms and conditions, if applicable, upon which the preferred stock being offered will be exchangeable for debt securities, including the exchange price, or the manner of calculating the exchange price, and the exchange period;

any listing of the preferred stock being offered on any securities exchange;

whether interests in the shares of the series will be represented by depositary shares;

a discussion of any material U.S. federal income tax considerations applicable to the preferred stock being offered;

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the relative ranking and preferences of the preferred stock being offered as to dividend rights and rights upon liquidation, dissolution, or the winding up of our affairs;

any limitations on the issuance of any class or series of preferred stock ranking senior or equal to the series of preferred stock being offered as to dividend rights and rights upon liquidation, dissolution or the winding up of our affairs; and

any additional rights, preferences, qualifications, limitations, and restrictions of the series.

Upon issuance, the shares of preferred stock will be fully paid and nonassessable, which means that its holders will have paid their purchase price in full and we may not require them to pay additional funds. Holders of preferred stock will not have any preemptive rights.

**Table of Contents**

**DESCRIPTION OF WARRANTS**

We may issue warrants to purchase debt or equity securities. Each warrant will entitle the holder of warrants to purchase for cash the amount of debt or equity securities, at the exercise price stated or determinable in the prospectus supplement for the warrants. We may issue warrants independently or together with any offered securities. The warrants may be attached to or separate from those offered securities. We will issue the warrants under warrant agreements to be entered into between us and a bank or trust company, as warrant agent, all as described in the applicable prospectus supplement. The warrant agent will act solely as our agent in connection with the warrants and will not assume any obligation or relationship of agency or trust for or with any holders or beneficial owners of warrants.

The prospectus supplement relating to any warrants that we may offer will contain the specific terms of the warrants. These terms may include the following:

the title of the warrants;

the designation, amount and terms of the securities for which the warrants are exercisable;

the designation and terms of the other securities, if any, with which the warrants are to be issued and the number of warrants issued with each other security;

the price or prices at which the warrants will be issued;

the aggregate number of warrants;

any provisions for adjustment of the number or amount of securities receivable upon exercise of the warrants or the exercise price of the warrants;

the price or prices at which the securities purchasable upon exercise of the warrants may be purchased;

if applicable, the date on and after which the warrants and the securities purchasable upon exercise of the warrants will be separately transferable;

if applicable, a discussion of the material U.S. federal income tax considerations applicable to the exercise of the warrants;

the date on which the right to exercise the warrants will commence, and the date on which the right will expire;

the maximum or minimum number of warrants that may be exercised at any time;



information with respect to book-entry procedures, if any; and

any other terms of the warrants, including terms, procedures and limitations relating to the exchange and exercise of the warrants.

**Table of Contents**

**LEGAL MATTERS**

In connection with particular offerings of the securities in the future, and unless otherwise indicated in the applicable prospectus supplement, the validity of those securities will be passed upon for The Nasdaq Stock Market, Inc. by Skadden, Arps, Slate, Meagher & Flom LLP, New York, New York.

**EXPERTS**

The consolidated financial statements of The Nasdaq Stock Market, Inc. appearing in The Nasdaq Stock Market, Inc.'s Annual Report (Form 10-K) for the year ended December 31, 2004 (including schedules appearing therein), and The Nasdaq Stock Market, Inc.'s management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2004 included therein (which did not include an evaluation of the internal control over financial reporting of Toll Associates LLC), have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in its reports thereon, which as to the report on internal control over financial reporting contains an explanatory paragraph describing the above referenced exclusion of Toll Associates LLC from the scope of management's assessment and such firm's audit of internal control over financial reporting, included therein, and incorporated herein by reference. Such financial statements and management's assessment have been incorporated herein by reference in reliance upon such reports given on the authority of such firm as experts in accounting and auditing.

The consolidated financial statements of Toll Associates LLC as of December 31, 2004 and for the period September 7, 2004 through December 31, 2004, have been audited by Deloitte and Touche LLP, an independent registered public accounting firm, as stated in their report which is incorporated herein by reference.

The audited historical consolidated financial statements of Instinet Group Incorporated included in Exhibit 99.1 of The Nasdaq Stock Market, Inc.'s Current Report on Form 8-K/A dated January 27, 2006 have been so incorporated in reliance on the report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

Table of Contents

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**18,500,000 Shares**

**Common Stock**

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Prospectus Supplement

April 27, 2006

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**Banc of America Securities LLC**

**Credit Suisse**

**Bear, Stearns & Co. Inc.**

**UBS Investment Bank**

**Cowen & Company**

**Keefe, Bruyette & Woods**

**Sandler O'Neill + Partners, L.P.**

**Thomas Weisel Partners LLC**

**Wachovia Securities**

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