UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended June 30, 2001

OR

[ ] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _______ to ___________

Commission file number _____

THE NASDAQ STOCK MARKET, INC.
(Exact name of registrant as specified in its charter)

Delaware	52-1165937
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

One Liberty Plaza New York, New York (Address of principal executive offices)	10006 (Zip code)

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

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

As of July 31, 2001, 110,761,355 shares of the Registrant's Common Stock, par value $.01 per share, were outstanding (including 530,350 shares of restricted Common Stock awarded to officers and employees of the Registrant).

THE NASDAQ STOCK MARKET, INC.
FORM 10-Q
For the Quarter Ended June 30, 2001
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Forward-looking statements in this Quarterly Report on Form 10-Q are subject to known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These forward-looking statements were based on various factors and were derived utilizing numerous assumptions and other factors that could cause actual results to differ materially from those in the forward-looking statements. These factors include, but are not limited to, The Nasdaq Stock Market, Inc.'s ability to implement its strategic initiatives, economic, political and market conditions and fluctuations, government and industry regulation, interest rate risk, U.S. and global competition, and other factors. Most of these factors are difficult to predict accurately and are generally beyond our control. You should consider the areas of risk described in connection with any forward-looking statements that may be made herein. 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.

THE NASDAQ STOCK MARKET, INC.

PART I - FINANCIAL INFORMATION

ITEM I Financial Statements

THE NASDAQ STOCK MARKET, INC.
Condensed Consolidated Statement of Operations
(Unaudited)
(In thousands, except share amounts)

	Three months ended	
	June 30, 2001	June 30, 2000
Revenues:		
Transaction services	$ 110,398	$ 92,151
Market information services	55,514	73,023
Issuer services	38,781	36,706
Other	16,613	9,624
Total revenues	221,306	211,504
Expenses:		
Compensation and benefits	46,713	33,528
Marketing and advertising	4,947	5,615
Depreciation and amortization	21,887	15,687
Professional and contract services	14,777	10,948
Computer operations and data communications	46,476	34,687
Bad debt expense	2,947	1,057
Occupancy	7,331	4,918
Other	18,198	6,311
Total direct expenses	163,276	112,751
Support costs from related parties, net	25,297	27,002
Total expenses	188,573	139,753
Net operating income	32,733	71,751
Interest income	3,807	3,205
Interest expense	(1,970)	(476)
Minority interest	1,765	-
Provision for income taxes	(16,753)	(29,181)
Net income	$ 19,582	$ 45,299
Basic earnings per common share	$ 0.17	$ 0.45
Diluted earnings per common share	$ 0.16	$ 0.45

See accompanying notes.

THE NASDAQ STOCK MARKET, INC.
Condensed Consolidated Statement of Operations
(Unaudited)
(In thousands, except share amounts)

	Six months ended June 30, 2001	Six months ended June 30, 2000
Revenues:		
Transaction services	$ 221,192	$ 199,948
Market information services	118,670	134,641
Issuer services	77,085	71,029
Other	27,126	12,901
Total revenues	444,073	418,519
Expenses:		
Compensation and benefits	85,809	62,122
Marketing and advertising	11,649	22,873
Depreciation and amortization	42,664	28,538
Professional and contract services	31,566	21,198
Computer operations and data communications	87,948	61,839
Bad debt expense	13,003	2,150
Occupancy	13,462	8,002
Other	31,437	11,458
Total direct expenses	317,538	218,180
Support costs from related parties, net	51,708	52,797
Total expenses	369,246	270,977
Net operating income	74,827	147,542
Interest income	9,977	5,405
Interest expense	(2,450)	(959)
Minority interest	1,982	-
Provision for income taxes	(38,561)	(60,339)
Net income before cumulative effect of change in accounting principle	45,775	91,649
Cumulative effect of change in accounting principle, net of taxes of $67,956	-	(101,090)
Net income (loss)	$ 45,775	$ (9,441)
Basic and diluted earnings per share before cumulative effect of change in accounting principle	$ 0.37	$ 0.91
Basic and diluted earnings (loss) per share for change in accounting principle	$ -	$ (1.01)
Basic and diluted earnings (loss) per share	$ 0.37	$ (0.09)

See accompanying notes.

THE NASDAQ STOCK MARKET, INC.
Condensed Consolidated Statement of Financial Condition
(Unaudited)
(In thousands, except share amounts)

	June 30, 2001	December 31, 2000
Assets		
Current assets:		
Cash and cash equivalents	$ 344,848	$ 262,257
Investments:		
Available-for-sale, at fair value	255,187	232,090
Held-to-maturity, at amortized cost	9,680	21,967
Receivables, net	203,041	172,660
Receivables from related parties	20,390	8,250

Deferred tax asset	37,791	32,367
Other current assets	15,782	14,869
Total current assets	886,719	744,460
Investments:		
Held-to-maturity, at amortized cost	19,125	6,612
Property and equipment:		
Land, buildings and improvements	87,828	80,727
Data processing equipment and software	413,183	370,066
Furniture, equipment and leasehold improvements	166,106	134,638
	667,117	585,431
Less accumulated depreciation and amortization	(294,913)	(252,380)
Total property and equipment, net	372,204	333,051
Non-current deferred tax asset	61,105	61,257
Other assets	27,515	25,753
Total assets	$ 1,366,668	$ 1,171,133

See accompanying notes.

THE NASDAQ STOCK MARKET, INC.
Condensed Consolidated Statement of Financial Condition - (continued)
(Unaudited)
(In thousands, except share amounts)

	June 30, 2001	December 31, 2000
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	$ 124,851	$ 117,867
Accrued personnel costs	31,679	37,273
Deferred revenue	107,404	66,178
Other accrued liabilities	53,178	35,374
Due to banks	5,107	13,876
Payables to related parties	27,689	19,158
Total current liabilities	349,908	289,726
Long-term debt:		
Senior notes	43,431	25,000
Subordinated indebtedness	240,000	-
Accrued pension costs	14,597	10,390
Non-current deferred tax liability	40,407	32,116
Non-current deferred revenue	128,481	138,166
Other liabilities	34,173	15,033
Total long-term liabilities	501,089	220,705
Total liabilities	850,997	510,431
Minority interests	1,992	15,543
Stockholders' Equity		
Common stock, $.01 par value, 300,000,000 authorized, Shares issued: 128,692,543 in 2001 and 123,663,746 in 2000; Shares outstanding: 110,231,005 in 2001 and 123,663,746 in 2000	1,287	1,237
Additional paid-in capital	337,039	273,387
Common stock in treasury, at cost: 18,461,538 shares in 2001 and 0 shares in 2000	(240,000)	-
Unrealized gains on available-for-sale investments, net of tax	1,009	321
Foreign currency translation	(5,134)	(2,213)
Deferred stock compensation	(5,619)	-
Common stock issuable	6,895	-
Retained earnings	418,202	372,427
Total stockholders' equity	513,679	645,159
Total liabilities, minority interest and stockholders' equity	$ 1,366,668	$ 1,171,133

See accompanying notes.

THE NASDAQ STOCK MARKET, INC.
Condensed Consolidated Statement of Cash Flows
(Unaudited)
(In thousands, except share amounts)

	Six months ended June 30, 2001	Six months ended June 30, 2000
Cash flow from operating activities		
Cash received from customers	$ 441,027	$ 426,105
Cash paid to suppliers and employees	(257,159)	(214,998)
Cash paid to related parties, net	(50,009)	(59,569)
Income taxes paid	(22,259)	(20,799)
Interest received, net	7,500	4,464
Other	(6,897)	259
Cash provided by operating activities	112,203	135,462
Cash flow from investing activities		
Proceeds from redemptions of available-for-sale investments	160,979	39,162
Purchases of available-for-sale investments	(186,864)	(52,411)
Proceeds from maturities of held-to-maturity investments	-	3,000
Purchases of held-to-maturity investments	(226)	(3,203)
Acquisition, net of cash acquired	558	(16,979)
Proceeds from sale of stock in Nasdaq Europe	9,564	-
Proceeds from sales of property and equipment	21,868	3,755
Purchases of property and equipment	(76,884)	(45,428)
Cash used in investing activities	(71,005)	(72,104)
Cash flow from financing activities		
Decrease in due to banks	(8,769)	(2,505)
Proceeds from Phase I private placement offering	-	254,142
Contributions from minority shareholders	-	30,000
Net proceeds from Phase II private placement	63,688	-
Repayment of minority interests in Nasdaq Europe Planning Company Limited	(20,000)	-
Payments for treasury stock purchases	(240,000)	-
Increase in long-term debt	246,474	-
Cash provided by financing activities	41,393	281,637
Increase in cash and cash equivalents	82,591	344,995
Cash and cash equivalents at beginning of period	262,257	10,598
Cash and cash equivalents at end of period	$ 344,848	$ 355,593

See accompanying notes.

THE NASDAQ STOCK MARKET, INC.
Condensed Consolidated Statement of Cash Flows - (continued)
(Unaudited)
(In thousands, except share amounts)

	Six months ended June 30, 2001	Six months ended June 30, 2000
Reconciliation of net income (loss) to cash provided by operating activities		
Net income (loss)	45,775	(9,441)
Non-cash items included in net income (loss):		
Cumulative effect of change in accounting principle, net		101,090
Depreciation and amortization	42,664	28,538
Stock-based compensation	1,276	-
Minority interests	1,765	-
Other non-cash adjustments included in net income	(1,258)	-
Net change in:		
Receivables, net	(29,521)	(63,307)
Receivables from related parties	(12,140)	(14,527)
Deferred tax asset	(5,890)	(10,964)
Other current assets	454	3,778
Other assets	(1,739)	(1,228)
Accounts payable and accrued expenses	(7,187)	(21,366)
Accrued personnel costs	(6,021)	(9,934)
Deferred revenue	31,347	71,012
Other accrued liabilities	17,663	54,616

Payables to related parties	8,531	7,755
Accrued pension costs	4,207	1,731
Deferred tax liability	5,856	-
Other liabilities	16,421	(2,291)
Cash provided by operating activities	$ 112,203	$ 135,462

See accompanying notes.

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

1. Basis of Presentation

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

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

All material intercompany accounts and transactions have been eliminated in consolidation. Nasdaq's financial statements have been prepared in accordance with the rules and regulations of the U.S. Securities and Exchange Commission (the "SEC") with respect to the Form 10-Q and reflect all normal recurring adjustments which are, in the opinion of management, necessary for a fair presentation of the results for the interim periods presented. Pursuant to such rules and regulations, certain footnote disclosures, which are normally required under generally accepted accounting principles, have been omitted. It is recommended that these financial statements be read in conjunction with the Condensed Consolidated Financial Statements included in Nasdaq's Registration Statement filed on Form 10, as amended, for the twelve months ended December 31, 2000. Nasdaq plans to file promptly an amendment to its Registration Statement on Form 10 to give effect to the matters described in Note 3 below.

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

2. Significant Transactions

Nasdaq Europe S.A./N.V.

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

3. Change in Accounting Principle

On August 17, 2001, Nasdaq concluded discussions with the SEC with respect to the implementation in its financial statements of Staff Accounting Bulletin 101, "Revenue Recognition in Financial Statements" ("SAB 101"), which became effective for SEC reporting companies in the fourth quarter of 2000. Nasdaq became a SEC public reporting company on June 29, 2001, the effective date of its Registration Statement on Form 10. As a result of the discussions with the SEC, Nasdaq changed its method of accounting for revenue recognition for certain components of its issuer services revenues. In accordance and consistent with generally accepted accounting principles, as SAB 101 was adopted effective the fourth quarter of 2000, the change in accounting principle has been applied as of January 1, 2000.

3. Change in Accounting Principle (continued)

In accordance with applicable accounting guidance prior to SAB 101, Nasdaq recognized revenue for issuer initial listing fees and listing of additional shares ("LAS") fees in the month the listing occurred or in the period additional shares were issued, respectively. Nasdaq now recognizes revenue related to initial listing fees and LAS fees on a straight line basis over estimated service periods, which are six and four years, respectively.

As a result of this change in accounting principle, pro forma net income for the six months ended June 30, 2000, excluding the cumulative effect of the change in accounting principle on prior years' results, decreased $16.4 million ($0.16 per share) to $91.6 million ($0.91 per share). In addition, Nasdaq recognized a one-time cumulative effect of a change in accounting principle in the first quarter of 2000. This cumulative effect of a change in accounting principle decreased net income in the first six months of 2000 by $101.1 million ($1.01 per share), resulting in a $9.4 million loss ($0.09 per share). The adjustment to first quarter 2000 net income for the cumulative change to prior years' results consists of the following:

(amounts in millions)

Deferred initial listing fees	$ 108.5
Deferred LAS fees	60.6
Total deferred fees	169.1
Deferred income tax benefit	(68.0)
Cumulative effect of change in accounting principle	$ 101.1

For the three months ended June 30, 2001 and 2000, Nasdaq recognized $11.7 million and $14.3 million in revenue, respectively, that was included in the cumulative effect adjustment as of January 1, 2000. This revenue contributed $7.0 million (after income taxes of $4.7 million) and $8.6 million (after income taxes of $5.7 million) to net income for the three months ended June 30, 2001 and 2000, respectively. For the six months ended June 30, 2001 and 2000, Nasdaq recognized $24.0 million and $29.3 million in revenue, respectively, that was included in the cumulative effect adjustment as of January 1, 2000. This revenue contributed $14.4 million (after income taxes of $9.6 million) and $17.5 million (after income taxes of $11.8 million) to net income for the six months ended June 30, 2001 and 2000, respectively.

4. Deferred Revenue

Nasdaq's deferred revenue as of June 30, 2001 related to issuer services fees will be recognized in the following years:

(amounts in thousands)

Fiscal year ended:	Initial	LAS	Annual	Total
2001	$17,426	$16,963	$42,203	$76,592
2002	30,989	27,516	-	58,505
2003	26,348	20,617	-	46,965
2004	21,622	10,066	-	31,688
2005 and thereafter	20,762	1,373	-	22,135
	$117,147	$76,535	$42,203	$235,885

Nasdaq's deferred revenue for the six months ended June 30, 2001 and 2000 are reflected in the following tables. The additions reflect the issuer services fees charged during the quarter while the amortization reflects the issuer services fee revenues recognized during the period based on the accounting methodology described in Note 3 above.

(amounts in thousands)	Initial	LAS	Annual	Total
Balance at January 1, 2001	$ 127,693	$ 76,651	$ -	$ 204,344
Additions	7,496	17,592	83,538	108,626
Amortization	(18,042)	(17,708)	(41,335)	(77,085)
Balance at June 30, 2001	$ 117,147	$ 76,535	$ 42,203	$ 235,885

(amounts in thousands)	Initial	LAS	Annual	Total
Balance at January 1, 2000	$ 108,476	$ 60,570	$ -	$ 169,046
Additions	30,823	28,734	79,409	138,966
Amortization	(16,235)	(16,049)	(38,745)	(71,029)
Balance at June 30, 2000	$ 123,064	$ 73,255	$40,664	$ 236,983

5. Long-term debt

During the six months ended June 30, 2001, Nasdaq's consolidated long-term debt increased by $258.4 million to $283.4 million. The increase reflects $18.4 million of senior debt of Nasdaq Europe, acquired by Nasdaq during the first quarter of 2001. Of this total, $2.6 million matures in 2003 with the remaining $15.8 million maturing in 2004. The debt is Euro-denominated with $3.5 million containing contractual fixed interest rates and $14.9 million containing interest rates based on a fixed premium above London Interbank Offered Rates.

5. Long-term debt (continued)

The increase also reflects the issuance of $240.0 million of 4% convertible subordinated debentures due 2006 (the "Subordinated Debentures") to Hellman & Friedman Capital Partners IV, L.P. and its affiliates (collectively, "Hellman & Friedman") on May 3, 2001. The annual 4% coupon will be payable in arrears in cash and the Subordinated Debentures will be convertible at any time into an aggregate of 12 million shares of Common Stock at $20.00 per share, subject to adjustment.

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

6. Commitments and Contingencies

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

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

7. Comprehensive Income

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

(amounts in millions)	Three months ended June 30,		Six months ended June 30,	
	2001	2000	2001	2000
Net income	$ 19.6	$ 45.3	$ 45.8	$ (9.4)
Unrealized gains on available-for-sale investments	(2.8)	0.4	0.7	(0.4)
Foreign currency translation adjustment	(1.8)	-	(2.9)	-
Total comprehensive income	$ 15.0	$ 45.7	$ 43.6	$ (9.8)

8. Capital Stock and Earnings Per Share

On May 3, 2001, Nasdaq used the net proceeds from the sale of the Subordinated Debentures (see Note 5) to purchase 18,461,538 shares of Common Stock from the NASD for $13.00 per share for an aggregate purchase price of approximately $240.0 million. In connection with the transaction, Nasdaq and the NASD have agreed to enter into an Investor Rights Agreement pursuant to which Nasdaq will grant the NASD certain demand and piggyback registration rights with respect to the shares of Common Stock owned by the NASD.

8. Capital Stock and Earnings Per Share (continued)

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

	Three months ended		Six months ended	
	June 30,	June 30,	June 30,	June 30,
(amounts in thousands, except share and per share data)	2001	2000	2001	2000
Numerator:				
Net income before cumulative effect of change in accounting principle	$ 19,582	$ 45,299	$ 45,775	$ 91,649
Numerator for basic earnings per share before cumulative effect of change in accounting principle	19,582	45,299	45,775	91,649
Cumulative effect of change in accounting principle	-	-	-	(101,090)
Numerator for basic earnings per share for accounting change	-	-	-	(101,090)
Net income (loss)	$ 19,582	$ 45,299	$ 45,775	$ (9,441)
Numerator for basic earnings per share	$ 19,582	$ 45,299	$ 45,775	$ (9,441)
Interest impact of convertible debt, net of tax	902	-	902	-
Numerator for diluted earnings per share	$ 20,484	$ 45,299	$ 46,677	$ (9,441)
Denominator:				
Weighted average shares	116,925,848	100,780,123	122,304,373	100,390,062
Denominator for basic earnings per share	116,925,848	100,780,123	122,304,373	100,390,062
Effect of dilutive securities:				
Employee stock options	-	-	-	-
Employee restricted stock	39,857	-	26,523	-
Convertible debt assumed converted into common	7,648,352	-	3,845,304	-
Denominator for diluted earnings per share	124,614,057	100,780,123	126,176,200	100,390,062
Basic earnings per share before cumulative effect of change in accounting principle	$ 0.17	$ 0.45	$ 0.37	$ 0.91
Diluted earnings per share before cumulative effect of change in accounting principle	$ 0.16	$ 0.45	$ 0.37	$ 0.91
Basic earnings (loss) per share for accounting change	$ -	$ -	$ -	$ (1.01)
Diluted earnings (loss) per share for change in accounting principle	$ -	$ -	$ -	$ (1.01)
Basic earnings (loss) per share	$ 0.17	$ 0.45	$ 0.37	$ (0.09)
Diluted earnings (loss) per share	$ 0.16	$ 0.45	$ 0.37	$ (0.09)

8. Capital Stock and Earnings Per Share (continued)

For the three and six month periods ended June 30, 2001, the Subordinated Debentures were convertible into 12.0 million shares of Common Stock at a conversion price of $20.00 per share, subject to adjustment. For purposes of calculating diluted earnings per share, the Subordinated Debentures were assumed to be converted into shares of Common Stock, on a weighted average basis, since basic earnings per share exceeded interest (net of tax) per share obtainable upon conversion.

The option awards made during the first quarter of 2001 were not included in computing diluted earnings per share as their effect was not dilutive.

THE NASDAQ STOCK MARKET, INC.
Management's Discussion and Analysis of Financial
Condition and Results of Operations

The following discussion of the financial condition and results of operations of Nasdaq should be read in conjunction with the condensed consolidated financial statements and notes thereto included elsewhere in this Form 10-Q.

Change in Accounting Principle

On August 17, 2001, Nasdaq concluded discussions with the SEC with respect to the implementation in its financial statements of SAB 101. SAB 101 became effective for SEC public reporting companies in the fourth quarter of 2000. Nasdaq became an SEC public reporting company on June 29, 2001, the effective date of its Registration Statement on Form 10.

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

As a result of this change in accounting principle, net income for the six months ended June 30, 2000, excluding the cumulative effect of the change in accounting principle on prior year's results, decreased $16.4 million ($1.64 per share) to $91.6 million ($0.91 per share). In addition, Nasdaq recognized a one-time cumulative effect of a change in accounting principle in the first quarter of 2000. This cumulative effect of a change in accounting principle decreased net income in the first six months of 2000 by $101.1 million ($1.01 per share), resulting in a $9.4 million loss ($0.09 per share). The adjustment to first quarter 2000 net income for the cumulative change to prior years' results consists of the following:

(amounts in millions)

Deferred initial listing fees	$ 108.5
Deferred LAS fees	60.6
Total Deferred Fees	169.1
Deferred income tax benefit	(68.0)
Cumulative effect of change in accounting principle	$ 101.1

For the three months ended June 30, 2001 and 2000, Nasdaq recognized $11.7 million and $14.3 million in revenue, respectively, that was included in the cumulative effect adjustment as of January 1, 2000. This revenue contributed $7.0 million (after income taxes of $4.7 million) and $8.6 million (after income taxes of $5.7 million) to net income for the three months ended June 30, 2001 and 2000, respectively. For the six months ended June 30, 2001 and 2000, Nasdaq recognized $24.0 million and $29.3 million in revenue, respectively, that was included in the cumulative effect adjustment as of January 1, 2000. This revenue contributed $14.4 million (after income taxes of $9.6 million) and $17.5 million (after income taxes of $11.8 million) to net income for the six months ended June 30, 2001 and 2000, respectively.

Change in Accounting Principle (continued)

The following table compares net income under the former accounting to net income under the new accounting method:

(amounts in millions)	Six months ended June 30, 2001	Six months ended June 30, 2000
Net income, before implementation of SAB 101	$ 40.3	$ 108.1
Increase due to recognition of prior period fees, included in the cumulative effect adjustment as of 1/1/00, net of taxes	14.4	17.5
Increase due to recognition of prior period fees, subsequent to the cumulative effect adjustment, net of taxes	6.4	-
Decrease due to deferral of current period fees, net of taxes	(15.3)	(33.9)
Cumulative effect of change in accounting principle, net of taxes	-	(101.1)
Net income (loss)	$45.8	$ (9.4)

Business Environment

Daily share volume in the second quarter slowed to 1.9 billion shares per day from the record volume experienced in the first quarter of 2001 of 2.1 billion shares per day, due in large part to the weaker and uncertain economy. Further slowing is expected in the third quarter with an upswing possible in the final quarter of 2001. Based on historic seasonal patterns, third quarter activity is the lowest of the year with volume increases in the fourth quarter. In addition, further reductions in interest rates could lead to improving conditions in the U.S. equity market, resulting in more equity offerings and increased transaction activity. A slowly improving economy may help delistings to stabilize over the latter half of 2001. However, should the outlook for the general economy remain uncertain, the equity market could be negatively affected and the number of initial public offerings ("IPO"s) is expected to remain down from a year ago. Further reductions in online retail trade activity and the elimination of additional staff at broker-dealers could reduce the demand for both market information and transactions services. If market levels continue to decline, fewer companies may elect to go public or issue additional shares, thus reducing issuer services revenue.

Results of Operations
For the Three Months Ended June 30, 2001 and 2000

Nasdaq reported net income of $19.6 million for the quarter ended June 30, 2001, representing a decrease of 56.7% from net income of $45.3 million for the quarter ended June 30, 2000.

Revenues

Nasdaq's revenues increased from $211.5 million for the quarter ended June 30, 2000 to $221.3 million for the quarter ended June 30, 2001, representing a 4.6% increase.

Transaction services

For the quarter ended June 30, 2001, transaction services revenues of $110.4 million increased $18.2 million from $92.2 million for the quarter ended June 30, 2000, an increase of 19.7%. Transaction services consist of SelectNet, Small Order Execution System ("SOES(sm)"), Automated Confirmation Transaction Service ("ACT(sm)"), the Nasdaq Workstation II, and other related execution services.

SelectNet, the high-volume automated execution service, provided revenues of $31.3 million, an increase of $4.0 million or 14.7% for the quarter ended June 30, 2001 from $27.3 million for the quarter ended June 30, 2000, due to an increase in trade volume. SelectNet fees are charged on a per transaction basis.

SOES, a system providing for the automatic execution of small orders, provided revenues of $9.5 million, an increase of $2.1 million or 28.4% for the quarter ended June 30, 2001 from $7.4 million for the quarter ended June 30, 2000, due to an increase in volume of SOES executions. SOES fees are charged on a per transaction basis.

On July 30, 2001, Nasdaq fully implemented the Nasdaq National Market Execution System (also known as "SuperSOES(sm)"). SuperSOES is designed to provide capability for automatic execution of buy and sell orders for market makers, electronic communication networks ("ECNs"), and institutional and retail customers, as well as streamline Nasdaq's transaction systems. SuperSOES combines features of the existing SelectNet and SOES execution systems and is only available for securities listed on The Nasdaq National Market tier of The

Nasdaq Stock Market. Securities listed on The Nasdaq SmallCap Market will continue to be traded through SOES and SelectNet. SuperSOES is expected to result in the migration of significant transaction volume, and its corresponding revenue, from SelectNet and SOES to SuperSOES. The changes in the fee schedule for SelectNet and the introduction of the SuperSOES fee schedule at the time of implementation of SuperSOES may have a negative effect on revenue in future quarters.

ACT, an automated service that provides the post-execution steps of reporting price, volume comparison and clearing of pre-negotiated trades as well as risk management services, provided revenues of $21.9 million, an increase of $0.6 million for the quarter ended June 30, 2001 from $21.3 million for the quarter ended June 30, 2000, due to various pricing changes enacted subsequent to March 31, 2000. These fee changes include a cap on risk management fees, price reductions on certain existing services, and a rule change that eliminated charges for certain transactions.

The Nasdaq Workstation II is the trader's direct connection to Nasdaq's quote and trade execution facilities, providing quotation services, automated trade executions, real-time reporting, trade negotiations and clearing. This trading device, along with application programming interfaces, provided revenues of $38.4 million, an increase of $8.6 million or 28.9% for the quarter ended June 30, 2001 from $29.8 million for the quarter ended June 30, 2000. This increase is due to a larger customer base as well as higher fees associated with expanded network capacity. Nasdaq Workstation II fees are charged monthly based upon the number of authorized logon identifications.

Market Information Services

For the quarter ended June 30, 2001, market information revenues of $55.5 million decreased $17.5 million from $73.0 million for the quarter ended June 30, 2000, a decrease of 24.0%. Market information consists of Nasdaq's Level 1 services, Nasdaq Quotation Dissemination Service, Nasdaq InterMarket tape revenues and other related services.

Market Information Services (continued)

Nasdaq's Level 1 service provides subscribers with current inside quote and most recent price at which the last sale or purchase was transacted for a specific security. Fees for professional users are based on monthly subscriptions to terminals or access lines. Non-professional users have the option to access this information through either a flat monthly rate or a per query usage charge. Level 1 revenues decreased by approximately $13.3 million or 29.0% to $32.6 million for the quarter ended June 30, 2001 from $45.9 million for the quarter ended June 30, 2000. The reduction in revenues is primarily due to a decrease in demand for the non-professional per query usage service.

Nasdaq Quotation Dissemination Service provides subscribers with the quotes of each individual market maker and ECN, in addition to the inside quotes and last transaction prices. Nasdaq Quotation Dissemination Service revenues decreased by approximately $7.2 million or 33.6% to $14.2 million for the quarter ended June 30, 2001 from $21.4 million for the quarter ended June 30, 2000. This reduction reflects the introduction of the non-professional service fee. Although the number of Nasdaq Quotation Dissemination Service subscribers increased in total, those eligible for the new reduced non-professional fee led to a decrease in total revenues.

Nasdaq InterMarket tape revenues are derived from data revenue generated by the Consolidated Quotation Plan and Consolidated Tape Association Plan (collectively, the "CQA/CTA Plans"). The information collected under the CQ/CTA Plans is sold to data vendors, who in turn sell it to the public. Nasdaq's InterMarket revenue is directly related to the percentage of trades in exchange listed securities that are executed in a Nasdaq facility and reported through the CQA/CTA Plans. Nasdaq InterMarket tape revenues increased by approximately $2.0 million or 37.7% to $7.3 million for the quarter ended June 30, 2001, from $5.3 million for the quarter ended June 30, 2000.

Issuer Services

Issuer services revenues increased to $38.8 million for the quarter ended June 30, 2001 from $36.7 million for the quarter ended June 30, 2000, an increase of 5.7%.

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

Initial listing revenues increased $0.7 million or 8.4% from $8.3 million in the quarter ended June 30, 2000 to $9.0 million in the quarter ended June 30, 2001. Listing of additional shares revenue increased $0.7 million or 8.5% from $8.2 million in the quarter ended June 30, 2000 to $8.9 million in the quarter ended June 30, 2001.

Actual initial listing and LAS fees charged during the three months ended June 30, 2001 decreased due to significantly reduced IPO activity and capital raising activity by current issuers.

Annual renewal revenues increased by $0.7 million or 3.5% from $20.1 million for the quarter ended June 30, 2000 to $20.8 million for the quarter ended June 30, 2001.

Other Revenues

Other revenues for the quarter ended June 30, 2001 totaled $16.6 million, up from $9.6 million in the second quarter of 2000, an increase of 72.9%. This growth was primarily due to increased revenues related to the Nasdaq 100 Trust.

Direct Expenses

Direct expenses increased 44.8% to $163.3 million for the second quarter of 2001 from $112.8 million for the second quarter of 2000.

Compensation and benefits expense increased $13.2 million or 39.4% to $46.7 million for the quarter ended June 30, 2001 from $33.5 million for the quarter ended June 30, 2000. This increase is due to a number of factors, including the transfer of positions from the NASD associated with the restructuring, new positions required to support strategic initiatives, and severance and outplacement expenses associated with the staff reduction made during the quarter. In response to the softening market conditions, Nasdaq implemented a staff reduction plan in June 2001 that eliminated 137 positions, or approximately 10% of the workforce.

Marketing and advertising expense decreased to $4.9 million for the second quarter of 2001 from $5.6 million for the second quarter of 2000, a decrease of 12.5%, due to the cancellation of the spring advertising campaign.

Depreciation and amortization expense increased $6.2 million or 39.5% to $21.9 million for the quarter ended June 30, 2001 from $15.7 million for the quarter ended June 30, 2000 due to a higher overall asset base to support hardware processing capacity and current initiatives, including capital leases for Nasdaq's MarketSite, located in New York City's Times Square.

Professional and contract services expense increased to $14.8 million for the second quarter of 2001 from $10.9 million for the second quarter of 2000, an increase of 35.8%, primarily due to increase support of SuperMontage and Primex development, future technology design planning, and potential acquisition costs. SuperMontage is an improved user interface designed to refine how market participants can access, process, display, and integrate orders and quotes in Nasdaq. Primex is a new electronic trading platform.

Computer operations and data communications expense increased to $46.5 million for the second quarter of 2001 from $34.7 million for the second quarter of 2000, an increase of $11.8 million or 34.0%. The computer operations component of the costs increased $2.3 million from the second quarter of 2000 to the second quarter of 2001 due to increases in maintenance to support a higher asset base. Data communications costs increased $9.5 million due to increased charges for upgraded bandwidth and processing speed, which is commensurate with the increase in Nasdaq Workstation II revenues as discussed above.

Occupancy expense increased $2.4 million or 49.0% to $7.3 million for the quarter ended June 30, 2001 from $4.9 million for the quarter ended June 30, 2000, primarily due to new leased space at Nasdaq's corporate offices located at One Liberty Plaza, New York, New York, new office space in Trumbull, Connecticut as well as leasehold improvements to the data center in Rockville, Maryland.

The remaining direct expenses increased 185.1% from $7.4 million for the quarter ended June 30, 2000 to $21.1 million for the quarter ended June 30, 2001. This increase is due primarily to foreign losses and also to a write-off related to the impairment of certain assets, and increased education, training, travel and supply expenses from the expanded Nasdaq workforce.

Support Costs

Support costs from related parties decreased by $1.7 million to $25.3 million for the quarter ended June 30, 2001 from $27.0 million for the quarter ended June 30, 2000. Surveillance and other regulatory charges from NASD Regulation, Inc. increased by $2.0 million to $22.0 million for the quarter ended June 30, 2001 from $20.0 million for the quarter ended June

30, 2000. Support costs from the NASD decreased $1.1 million to $6.9 million for the quarter ended June 30, 2001 from $8.0 million for the quarter ended June 30, 2000. In addition, contributing to the decrease was an increase in the amount of Nasdaq costs charged to the American Stock Exchange, LLC of $2.6 million to $3.6 million for the three months ended June 30, 2001 from $1.0 million for the three months ended June 30, 2000. Amounts charged to related parties are netted against charges from related parties in the "Support cost from related parties, net" line item on the Consolidated Statements of Operations.

Income Taxes

Nasdaq's income tax provision was $16.8 million for the second quarter of 2001 versus $29.1 million for the second quarter of 2000. The effective tax rate was 46.1% for the second quarter of 2001 compared to 39.2% for the second quarter of 2000. The increase in Nasdaq's effective tax rate was primarily due to its foreign losses for which no tax benefit is taken.

Results of Operations

For the Six Months Ended June 30, 2001 and 2000
- ---

Nasdaq reported net income of $45.8 million for the six months ended June 30, 2001, compared to a loss of $9.4 million for the six months ended June 30, 2000. Compared to pro forma net income for the first half of 2000 of $91.6 million, excluding cumulative the effect of the change in accounting, net income decreased by $45.9 million, or 50.0%.

Revenues

Nasdaq's revenues increased from $418.5 million for the six months ended June 30, 2000 to $444.1 million for the six months ended June 30, 2001, representing a 6.1% increase.

Transaction Services

For the six months ended June 30, 2001, transaction services revenues of $221.2 million increased $21.3 million from $199.9 million for the six months ended June 30, 2000, an increase of 10.7%. Transaction services consist of SelectNet, SOES, ACT, the Nasdaq Workstation II, and other related execution services.

SelectNet provided revenues of $63.6 million, an increase of $7.5 million or 13.4%, for the six months ended June 30, 2001 from $56.1 million for the six months ended June 30, 2000, due to an increase in trade volume.

SOES provided revenues of $19.1 million, an increase of $3.9 million or 25.5% for the six months ended June 30, 2001 from $15.4 million for the six months ended June 30, 2000, due to an increase in volume of SOES executions. SOES fees are charged on a per transaction basis.

On July 30, 2001 Nasdaq fully implemented SuperSOES. SuperSOES combines features of the existing SelectNet and SOES execution systems and is only available for securities listed on The Nasdaq National Market. Securities listed on The Nasdaq SmallCap Market will continue to be traded through SOES and SelectNet. SuperSOES is expected to result in the migration of significant transaction volume, and its corresponding revenue, from SelectNet and SOES to SuperSOES. The changes in the fee schedule for SelectNet and the introduction of the SuperSOES fee schedule at the time of implementation of SuperSOES may have a negative effect on revenue in future quarters.

Transaction Services (continued)

ACT provided revenues of $47.0 million, a decrease of $7.7 million or 14.1% for the six months ended June 30, 2001 from $54.7 million for the six months ended June 30, 2000, due to various pricing changes enacted subsequent to March 31, 2000. These changes include a cap on risk management fees, price reductions on certain existing services, and a rule change that eliminated charges for certain transactions.

Nasdaq Workstation II, along with application programming interfaces, provided $74.7 million, an increase of $17.2 million or 29.9% for the six months ended June 30, 2001 from $57.5 million for the six months ended June 30, 2000. This increase is due to a larger customer base as well as higher fees associated with expanded network capacity. Nasdaq Workstation II fees are charged monthly based upon the number of authorized logon identifications.

Market Information Services

For the six months ended June 30, 2001, market information revenues of $118.7 million decreased $15.9 million or 11.8% from $134.6 million for the six months ended June 30, 2000. Market information consists of Nasdaq Level 1 service, Nasdaq Quotation Dissemination Service, Nasdaq InterMarket tape revenues and other related services.

Nasdaq's Level 1 service revenues decreased by approximately $11.9 million or 14.3% to $71.4 million for the six months ended June 30, 2001 from $83.3 million for the six months ended June 30, 2000. This reduction in revenues is due primarily to a decrease in demand for non-professional per query service.

Nasdaq Quotation Dissemination Service revenues decreased by approximately $9.4 million or 24.0% to $29.8 million for the six months ended June 30, 2001 from $39.2 million for the six months ended June 30, 2000. This reduction reflects the introduction of the non-professional service fee. Although the number of Nasdaq Quotation Dissemination Service subscribers increased in total, those eligible for the new reduced non-professional fee led to a decrease in total revenues.

Nasdaq InterMarket tape revenues increased by approximately $4.0 million or 35.4% to $15.3 million for the six months ended June 30, 2001, from $11.3 million for the six months ended June 30, 2000.

Issuer Services

Issuer services revenues increased to $77.1 million for the six months ended June 30, 2001 from $71.0 million for the six months ended June 30, 2000, an increase of 8.6%.

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

Initial listing revenues increased $1.8 million or 11.1% from $16.2 million in the six months ended June 30, 2000 to $18.0 million in the six months ended June 30, 2001. LAS shares revenue increased $1.7 million or 10.6% from $16.0 million in the six months ended June 30, 2000 to $17.7 million in the six months ended June 30, 2001.

Issuer Services (continued)

Actual initial listing and LAS fees charged during the six months ended June 30, 2001 decreased due to significantly reduced IPO activity and capital raising activity by current issuers. The amortization of deferred Initial and LAS fees exceeded new fees charged during the six months ended June 30, 2001 by $10.7 million due to the significant decrease in initial listings on Nasdaq from 342 companies in the six months ended June 30, 2000 to 69 companies in the six months ended June 30, 2001.

Annual renewal revenues increased by $2.6 million or 6.7% from $38.7 million for the six months ended June 30, 2000 to $41.3 million for the six months ended June 30, 2001.

Other Revenues

Other revenues for the six months ended June 30, 2001 totaled $27.1 million, up from $12.9 million in the first half of 2000, an increase of 110.1%. This growth was primarily due to increased revenues related to the Nasdaq 100 Trust.

Direct Expenses

Direct expenses increased 45.5% to $317.5 million for the first half of 2001 from $218.2 million for the first half of 2000.

Compensation and benefits expense increased to $85.8 million for the first half of 2001 from $62.1 million for the first half of 2000, an increase of $23.7 million or 38.2%. This increase is due to a number of factors, including the transfer of positions from the NASD associated with the restructuring, new positions required to support strategic initiatives, and severance and outplacement expenses associated with the staff reduction made during the quarter. In response to softening market conditions, Nasdaq implemented a staff reduction plan in June 2001 that eliminated 137 positions, or approximately 10% of the workforce.

Marketing and advertising expense decreased to $11.6 million for the first six months of 2001 from $22.9 million for the first six months of 2000, a decrease of 49.3%, due to the cancellation of the spring advertising campaign.

Depreciation and amortization expense increased $14.2 million or 49.8% to $42.7 million for the six months ended June 30, 2001 from $28.5 million for the six months ended June 30, 2000 due to a higher overall asset base to support current initiatives, such as SuperMontage and Primex.

Professional and contract services expense increased to $31.6 million for the first half of 2001 from $21.2 million for the first half of 2000, an increase of $10.4 million or 49.1%, in support of SuperMontage and Primex development, future technology design planning, and potential acquisition costs.

Computer operations and data communications expense increased $26.1 million or 42.2% to $87.9 million for the six months ended June 30, 2001 from $61.8 for the six months ended June 30, 2000. The computer operations component of the costs increased $6.7 million from the first half of 2000 to the first half of 2001 due to increases in maintenance to support a higher asset base. Data communications costs increased $19.4 million due to increased charges for upgraded bandwidth and processing speed that is commensurate with the increase in Nasdaq Workstation II revenues as discussed above.

Direct Expenses (continued)

Bad debt expense increased to $13.0 million for the first six months of 2001 from $2.1 million for the first half of 2000 reflecting an increase in bad debt reserves commensurate with growth in Nasdaq's account receivables and a reserve relating to the bankruptcy filing by Bridge Information Systems, Inc.

Occupancy expense increased $5.5 million or 68.8% to $13.5 million for the six months ended June 30, 2001 from $8.0 million for the six months ended June 30, 2000, primarily due to Nasdaq's new corporate offices, located at One Liberty Plaza, New York, New York, new office space in Trumbull, Connecticut and leasehold improvements to the Rockville, Maryland data center.

The remaining direct expenses increased $19.9 million to $31.4 million for the six months ended June 30, 2001 from $11.5 million for the six months ended June 30, 2000, due primarily to foreign losses and also to increased education, training, travel and supply expenses from the expanded Nasdaq workforce as well as a write-off related to the impairment of certain assets taken during the second quarter of 2001.

Support Costs

Support costs from related parties decreased by $1.1 million to $51.7 million for the six months ended June 30, 2001 from $52.8 million for the six months ended June 30, 2000. Surveillance and other regulatory charges from NASDR increased by $3.1 million to $40.9 million for the six months ended June 30, 2001 from $37.8 million for the six months ended June 30, 2000. Support costs from the NASD decreased $2.3 million to $16.2 million for the six months ended June 30, 2001 from $18.5 million for the six months ended June 30, 2000. In addition, contributing to the decrease was an increase in the amount of Nasdaq costs charged to the American Stock Exchange LLC of $1.8 million to $5.4 million for the six months ended June 30, 2001 from $3.6 million for the six months ended June 30, 2000.

Income Taxes

Nasdaq's income tax provision was $38.6 million for the first half of 2001 versus $60.3 million for the first half of 2000. The effective tax rate was 45.7% for the first half of 2001 compared to 39.7% for the first six months of 2000. The increase in Nasdaq's effective tax rate was primarily due to its foreign losses for which no tax benefit is taken.

Liquidity and Capital Resources

June 30, 2001 compared to December 31, 2000

Cash and cash equivalents and available-for-sale securities totaled $600.0 million at June 30, 2001, an increase of $105.6 million from $494.4 million at December 31, 2000. Working capital increased $94.3 million to $527.1 million as of June 30, 2001, from $432.8 million as of December 31, 2000.

Cash and cash equivalents increased $82.6 million from December 31, 2000 to $344.8 million as of June 30, 2001, primarily due to cash provided by operating activities of $112.2 million and cash provided by financing activities of $41.4 million, partially offset by cash used in investing activities of $71.0 million.

For the six months ended June 30, 2001, operating activities provided net cash inflows of $112.2 million, primarily due to cash received from customers of $441.0 million less cash paid to suppliers, employees, and related parties of $307.2 million and income taxes paid of $22.3 million.

June 30, 2001 compared to December 31, 2000 (continued)

Net cash used in investing activities was $71.0 million for the six months ended June 30, 2001, due in part to capital expenditures related to SuperMontage, Primex, global initiatives and general capacity increases. The remaining cash used in investing activities is attributable to purchases of investments with the proceeds of the second phase of Nasdaq's private placement of Common Stock that closed in January 2001 and receipts from the sales and maturities of investments.

Cash provided by financing activities was approximately $41.4 million for the six months ended June 30, 2001 primarily due to the sale of its Subordinated Debentures to Hellman & Friedman on May 3, 2001, Nasdaq yielded gross proceeds of approximately $240.0 million and net proceeds received from the second phase of its private placement described above that equaled approximately $63.7 million. Nasdaq used the proceeds to repurchase 18,461,538 shares of common stock from the NASD for $13.00 per share for an aggregate purchase price of approximately $240.0 million. During the six months ended June 30, 2001, Nasdaq also repayed approximately $20.0 million to the venture partners who participated in Nasdaq Europe Planning Company Limited. Nasdaq will use the proceeds to invest in new technology, implement and form strategic alliances, implement competitive pricing of its services and build its brand through marketing programs.

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

Quantitative and Qualitative Disclosure of Market Risk

Nasdaq is exposed to potential loss from financial market risks that may occur as a result of changes in interest rates. Its exposure to these risks has not materially changed since December 31, 2000.

For a further discussion, refer to "Management's Discussion and Analysis of Financial Condition and Results of Operations - Quantitative and Qualitative Disclosure About Market Risk" included in Nasdaq's Registration Statement on Form 10, as amended.

THE NASDAQ STOCK MARKET, INC.

PART II - OTHER INFORMATION

ITEM 2 Changes in Securities and Use of Proceeds

(c) On May 3, 2001, Nasdaq sold $240.0 million in aggregate principal amount of its Subordinated Debentures to Hellman & Friedman. The Subordinated Debentures are convertible at any time into an aggregate of 12.0 million shares of Common Stock, reflecting a conversion price of $20.00 per share, subject to adjustment. Hellman & Friedman owns approximately 9.8% of Nasdaq on an as-converted basis. Nasdaq has granted Hellman & Friedman certain registration rights with respect to the shares of Common Stock underlying the Subordinated Debentures. The Subordinated Debentures were sold in a private transaction pursuant to Section 4(2) of the Securities Act, which exempts sales of securities that do not involve a public offering. No underwriter was used in this transaction.

Nasdaq approved a maximum of 500,000 shares of Common Stock for sale pursuant to its Employee Stock Purchase Plan for the offering period ended June 29, 2001. The final number of shares actually sold pursuant to the Employee Stock Purchase Plan has not been determined as of the date of this filing. The foregoing sales of shares of Common Stock were made pursuant to Rule 701 under the Securities Act of 1933, as amended, which exempts issuances of securities under certain written compensatory employee benefit plans.

THE NASDAQ STOCK MARKET, INC.

PART II - OTHER INFORMATION

ITEM 4 Submission of Matters to a Vote of Security Holders

At the annual meeting of stockholders of Nasdaq held on May 15, 2001, the following matters were submitted to a vote of security holders:

1. A proposal was submitted for the election of five Class 1 Directors to the Nasdaq Board of Directors. The results for the nominees were as follows: Frank E. Baxter - 98,816,984 votes for, 16,100 votes withheld; Michael Clark - 98,816,974 votes for, 16,110 votes withheld; Kenneth D. Pasternak - 98,808,484 votes for, 24,600 votes withheld; Hardwick Simmons - 98,816,974 votes for, 16,110 votes withheld; and Arvind Sodhani - 98,816,684 for; 16,400 votes withheld. The terms of the following directors continued after the annual meeting: H. Furlong Baldwin, Michael Casey, F. Warren Hellman, E. Stanley O'Neal, Vikram S. Pandit, David Pottruck, Arthur Rock, Richard C. Romano, Sir Martin Sorrell, and Frank G. Zarb. Effective upon the conclusion of the annual meeting, the Nasdaq Board of Directors voted to increase its size by three and elected Josef Ackermann, John D. Markese, and William S. Cohen to the Board of Directors.

2. A proposal was submitted to ratify the adoption of Nasdaq's Equity Incentive Plan (the "Incentive Plan"). The Incentive Plan was approved by Nasdaq's Board of Directors on December 6, 2000 and provides for the grant of incentive stock options, non-qualified stock options, restricted stock, restricted stock units, and other stock-based awards. The results were 98,772,974 votes for, 46,210 against, and 13,900 abstaining, and the proposal was adopted.

3. A proposal was submitted to ratify the adoption of Nasdaq's Employee Stock Purchase Plan (the "Stock Purchase Plan"). The Stock Purchase Plan was approved by Nasdaq's Board of Directors on December 6, 2000 and provides employees of Nasdaq and its subsidiaries with an opportunity to purchase shares of Nasdaq's common stock through annual offerings financed by payroll deductions and/or lump sum payment contributions. The results were 98,781,074 votes for, 42,910 against, and 9,100 abstaining, and the proposal was adopted.

THE NASDAQ STOCK MARKET, INC.

PART II - OTHER INFORMATION

ITEM 6 Exhibits and Reports on Form 8-K

(a) Exhibits:

The following exhibit is filed as part of this Quarterly Report.

11.01 Computation of Per Share Earnings (omitted in accordance with section (b)(11) of Item 601 of Regulation S-K. The calculation of per share earnings is set forth in Part I, Item 1, in Note 8 to the Condensed Consolidated Financial Statements (Capital Stock and Earnings Per Share)).

(b) Reports on Form 8-K:

Nasdaq did not file any reports on Form 8-K during the three months ended June 30, 2001.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THE NASDAQ STOCK MARKET, INC.

(Registrant)

Date: August 20, 2001 By: /s/ David P. Warren

Name: David P. Warren
Title: Executive Vice President
and Acting Chief Financial
Officer

Date: August 20, 2001 By: /s/ Edward S. Knight

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