

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2003

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 0-32651

THE NASDAQ STOCK MARKET, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State or Other Jurisdiction of
Incorporation or Organization)

52-1165937

(IRS Employer Identification No.)

**One Liberty Plaza
New York, New York**

(Address of Principal Executive Offices)

10006

(Zip Code)

(212) 401-8742

(Registrant's Telephone Number, Including Area Code)

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

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

As of November 7, 2003, 78,431,881 shares of the Registrant's Common Stock, par value \$0.01 per share ("Common Stock"), were outstanding.

**The Nasdaq Stock Market, Inc.
Form 10-Q
For the Quarter Ended September 30, 2003**

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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 ("Nasdaq") ability to implement its strategic initiatives, economic, political, and market conditions and fluctuations, government and industry regulation, interest rate risk, U.S. and global competition and other factors that are more fully described under the caption "Item 1. Business—Risk Factors" in The Nasdaq Stock Market, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2002. 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. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of September 30, 2003. 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 1. Financial Statements

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

	Three months ended		Nine months ended	
	September 30, 2003	September 30, 2002	September 30, 2003	September 30, 2002
Revenues				
Transaction Services	\$ 54,412	\$ 93,233	\$ 182,712	\$ 301,860
Market Information Services	35,993	49,713	116,349	152,873
Corporate Client Group	41,189	44,248	126,541	132,115
Other	13,192	11,595	36,466	28,410
	<u>144,786</u>	<u>198,789</u>	<u>462,068</u>	<u>615,258</u>
Expenses				
Compensation and benefits	38,299	51,322	136,086	142,434
Marketing and advertising	3,795	6,121	14,606	14,159
Depreciation and amortization	24,275	25,130	78,179	75,228
Professional and contract services	9,402	17,237	35,566	49,270
Computer operations and data communications	34,791	35,284	99,805	113,163
Provision for bad debts	—	2,496	1,584	9,004
Travel, meetings and training	2,063	2,710	7,150	9,438
Occupancy	8,228	7,454	24,917	24,427
Publications, supplies and postage	1,484	2,733	5,267	7,772
Other	3,257	1,809	13,427	19,244
	<u>125,594</u>	<u>152,296</u>	<u>416,587</u>	<u>464,139</u>
	49,306	—	109,136	—
Elimination of non-core product lines, initiatives and severance			(5,000)	15,208
Nasdaq Japan impairment loss	15,449	21,102	48,420	56,453
Support costs from related parties, net				

Total expenses	190,349	173,398	569,143	535,800
Net operating (loss) income	(45,563)	25,391	(107,075)	79,458
Interest income	2,493	3,128	7,876	9,686
Interest expense	(5,281)	(6,535)	(15,988)	(14,146)
Minority interests	2,374	2,953	11,420	8,551
Net (loss) income before taxes	(45,977)	24,937	(103,767)	83,549
Benefit (provision) for income taxes	7,969	(12,226)	19,317	(40,741)
Net (loss) income	\$ (38,008)	\$ 12,711	\$ (84,450)	\$ 42,808
Net (loss) income applicable to common stockholders:				
Net (loss) income	\$ (38,008)	\$ 12,711	\$ (84,450)	\$ 42,808
Preferred stock:				
Dividends declared	(2,542)	—	(5,736)	—
Accretion of preferred stock	—	(2,441)	—	(7,323)
Net (loss) income applicable to common stockholders	\$ (40,550)	\$ 10,270	\$ (90,186)	\$ 35,485
Earnings per common share:				
Basic (loss) earnings per share	\$ (0.52)	\$ 0.13	\$ (1.15)	\$ 0.42
Diluted (loss) earnings per share	\$ (0.52)	\$ 0.13	\$ (1.15)	\$ 0.40

See accompanying notes.

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

	September 30, 2003	December 31, 2002
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 127,836	\$ 204,271
Investments:		
Available-for-sale, at fair value	194,801	222,125
Held-to-maturity, at amortized cost	26,739	18,674
Receivables, net	128,048	166,471
Receivables from related parties	5,678	11,274
Deferred tax asset	53,947	53,048
Other current assets	19,337	21,143
Total current assets	556,386	697,006
Investments:		
Held-to-maturity, at amortized cost	1,506	9,756
Property and equipment:		
Land, buildings and improvements	96,400	94,549
Data processing equipment and software	410,381	452,309
Furniture, equipment and leasehold improvements	192,835	192,091
	699,616	738,949
Less accumulated depreciation and amortization	(421,155)	(377,724)
Total property and equipment, net	278,461	361,225
Non-current deferred tax asset	70,365	69,971
Goodwill	—	10,138
Other intangible assets	1,944	6,505
Other assets	1,182	21,313
Total assets	\$ 909,844	\$ 1,175,914
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	\$ 44,742	\$ 79,611

Accrued personnel costs	45,906	47,511
Deferred revenue	83,953	64,633
Current portion of senior notes	4,954	11,329
Other accrued liabilities	64,567	40,510
Current obligation under capital lease	5,911	4,396
Payables to related parties	15,370	27,324
Total current liabilities	265,403	275,314
Senior notes	28,264	189,689
Subordinated notes	240,000	240,000
Non-current obligation under capital lease	3,026	7,735
Accrued pension costs	25,198	23,558
Non-current deferred tax liability	51,902	49,240
Non-current deferred revenue	84,551	102,065
Other liabilities	29,166	23,923
Total liabilities	727,510	911,524
Minority interests	—	(6,482)
Stockholders' equity		
Common stock, \$0.01 par value, 300,000,000 authorized, shares issued: 130,610,921 at September 30, 2003 and 130,518,921 at December 31, 2002; shares outstanding: 78,431,581 at September 30, 2003 and 78,266,708 at December 31, 2002	1,306	1,305
Preferred stock, 30,000,000 authorized, Series A: 1,338,402 shares issued and outstanding; Series B: 1 share issued and outstanding	133,840	133,840
Additional paid-in capital	359,201	358,237
Common stock in treasury, at cost: 52,179,340 at September 30, 2003 and 52,252,213 shares at December 31, 2002	(668,431)	(669,454)
Accumulated other comprehensive income	(1,607)	(2,326)
Deferred stock compensation	(1,144)	(1,920)
Common stock issuable	3,102	4,937
Retained earnings	356,067	446,253
Total stockholders' equity	182,334	270,872
Total liabilities, minority interests and stockholders' equity	\$ 909,844	\$ 1,175,914

See accompanying notes.

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

	Nine months ended	
	September 30, 2003	September 30, 2002
Reconciliation of net (loss) income to cash provided by operating activities		
Net (loss) income	\$ (84,450)	\$ 42,808
Non-cash items included in net income:		
Depreciation and amortization	78,179	75,228
Amortization of restricted stock awards and other stock-based compensation	122	2,842
Minority interests	(11,420)	(8,551)
Provision for bad debts	1,584	9,004
Loss from equity method affiliates	1,196	9,561
Elimination of non-core product lines, initiatives and severance	84,750	—
Nasdaq Japan impairment loss	(5,000)	15,208
Deferred taxes	(473)	10,963
Other non-cash items included in net income	12,704	(5,364)
Net change in:		
Receivables, net	36,839	11,019
Receivables from related parties	4,566	22,872
Other current assets	(1,903)	3,010
Other assets	14,160	4,224
Accounts payable and accrued expenses	(34,869)	(33,312)
Accrued personnel costs	(11,996)	(7,414)
Deferred revenue	1,806	12,398
Other accrued liabilities	11,423	(11,430)
Obligation under capital leases	(3,194)	(3,485)
Payables to related parties	(11,954)	6,161
Accrued pension costs	1,640	789
Other liabilities	5,243	(4,622)

	88,953	151,909
Cash provided by operating activities		
Cash flow from investing activities		
Proceeds from redemptions of available-for-sale investments	177,391	183,931
Purchases of available-for-sale investments	(151,712)	(152,574)
Proceeds from held-to-maturity investments	15,600	—
Purchases of held-to-maturity investments	(15,452)	—
Acquisition, net of cash acquired	(503)	—
Capital contribution to Nasdaq LIFFE joint venture	(2,500)	(13,000)
Purchases of property and equipment	(34,674)	(78,809)
Proceeds from sales of property and equipment	42	34,200
	<u> </u>	<u> </u>
Cash (used in) investing activities	(11,808)	(26,252)
Cash flow from financing activities		
Payments for treasury stock purchases	(147)	(305,155)
(Decrease) in short-term borrowings	(1,644)	—
(Decrease) increase in long-term debt	(150,244)	151,574
Issuances of common stock	640	1,496
Contribution from minority shareholders	3,653	1,298
Contribution (to) from the NASD, net of distribution	(5,838)	5,569
	<u> </u>	<u> </u>
Cash (used in) financing activities	(153,580)	(145,218)
Decrease in cash and cash equivalents	(76,435)	(19,561)
Cash and cash equivalents at beginning of period	204,271	293,731
	<u> </u>	<u> </u>
Cash and cash equivalents at end of period	\$ 127,836	\$ 274,170
	<u> </u>	<u> </u>
Supplemental disclosure of non-cash flow activities:		
Nasdaq Europe's debt to equity conversion	\$ 17,912	\$ —
Payments for treasury stock purchases with issuance of preferred stock	\$ —	\$ 124,075
Cash paid during the nine months:		
Interest	\$ 16,408	\$ 10,796
Income taxes	\$ 63	\$ 78,701

See accompanying notes.

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

1. Organizations and Nature of Operations

Nasdaq operates The Nasdaq Stock Market®, one of the world's largest electronic screen-based equity securities market and one of the world's largest equity securities market based on share volume. Nasdaq is the parent company of Nasdaq Global Holdings ("Nasdaq GlobalSM"); Quadsan Enterprises, Inc. ("Quadsan"); Nasdaq Financial Products Services, Inc. ("Nasdaq Financial Products"); Nasdaq International Market Initiatives, Inc. ("NIMISM"); and Nasdaq Canada, Inc. ("Nasdaq CanadaSM"), collectively referred to as "Nasdaq". These entities are wholly-owned by Nasdaq. On October 31, 2003, Quadsan was merged with and into Nasdaq. See Note 10, Subsequent Events, for further discussion. Nasdaq Tools Inc. ("Nasdaq ToolsSM"), previously a wholly-owned subsidiary of Nasdaq, was merged with and into Nasdaq on July 31, 2002. During the second quarter of 2003 and continuing in the third quarter of 2003, Nasdaq announced the results of a strategic review of its business initiatives, products and services. As a result of this review, Nasdaq (1) determined it would wind-down Nasdaq Tools and (2) supported the decision of the shareholders of Nasdaq Europe S.A./N.V. ("Nasdaq EuropeSM") to wind-down the market operated by Nasdaq Europe. At September 30, 2003, Nasdaq owned a 63.0% interest in Nasdaq Europe. In addition, as part of the strategic review, in the third quarter of 2003, (1) Nasdaq redeemed its interest in Nasdaq LIFFE Markets, LLC ("NQLX"), a joint venture in which Nasdaq had a 50.0% interest, and transferred its ownership interest to NQLX, which resulted in the London International Financial Futures Exchange ("LIFFE"), the remaining owner of NQLX, assuming financial and management responsibility and (2) Nasdaq Europe supported the decision of the shareholders of Nasdaq Deutschland AG ("Nasdaq Deutschland"), a German exchange in which Nasdaq Europe had a 50.0% interest, to suspend that company's trading operations effective August 29, 2003. Nasdaq Europe transferred all of its shares in Nasdaq Deutschland to one of the other shareholders, BWB Holding AG, effective August 29, 2003. See Note 2, Significant Transactions, for further discussion of Nasdaq's strategic review.

Nasdaq Global, which is incorporated in Switzerland, was the holding company for Nasdaq's investment in IndigoMarkets Ltd. ("IndigoMarketsSM") in which Nasdaq Global had a 55.0% interest prior to September 30, 2003. On September 30, 2003, Nasdaq Global sold its interest in Indigo Markets to its partner SSI Limited ("SSI"). See Note 2, Significant Transactions, for further discussion. Prior to June 30, 2002, Nasdaq Global also had a 39.7% interest in Nasdaq Japan, Inc. ("Nasdaq JapanSM"). As of June 30, 2002, Nasdaq recognized an other-than-temporary impairment of its investment in Nasdaq Japan and fully liquidated and dissolved its investment during the second quarter of 2003. Nasdaq Europe Planning Company, Limited ("Nasdaq Europe Planning") is owned by Nasdaq Global and Nasdaq. Nasdaq Europe Planning was formed to expand Nasdaq into the European community; however, it has been inactive due to the purchase of Nasdaq's interest in Nasdaq Europe. Nasdaq is currently reviewing the need to maintain Nasdaq Europe Planning. Nasdaq Europe operates a pan-European market headquartered in Brussels. Nasdaq International Ltd. ("Nasdaq International"), a wholly-owned subsidiary of Nasdaq Global, is a London based marketing company. Prior to its merger with Nasdaq, Quadsan was a Delaware investment holding company that provided investment management services for Nasdaq. Nasdaq Financial Products is the sponsor of the Nasdaq-100 TrustSM. Nasdaq Financial Product Services (Ireland) Limited ("Nasdaq Ireland") is a wholly-owned subsidiary of Nasdaq Financial Products. Nasdaq Ireland is the manager of The Nasdaq ETF Funds plc. NIMI is an entity that employs Nasdaq's

expatriates assigned to Nasdaq's international subsidiaries. Nasdaq Canada was created to develop a new securities market within Canada under a cooperative agreement with the Provincial Government of Quebec.

Nasdaq operates in one segment as defined in Statement of Financial Accounting Standards ("SFAS") No. 131, "Disclosures About Segments of an Enterprise and Related Information." Nasdaq uses a multiple market participant system to operate an electronic, screen-based equity market.

Nasdaq's principal business products are Transaction Services, Market Information Services and the Corporate Client Group. The majority of this business is transacted with companies listed on The Nasdaq Stock Market, market data vendors and firms in the broker-dealer industry within the U.S.

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 that 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 accounting principles generally accepted in the United States, have been omitted. It is recommended that these financial statements be read in conjunction with the Consolidated Financial Statements included in Nasdaq's Annual Report filed on Form 10-K for the year ended December 31, 2002.

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 reclassifications have been made to prior period balances in order to conform to the current period's presentation.

2. Significant Transactions

Strategic Review

During the second quarter of 2003, Nasdaq announced a plan designed to position Nasdaq for improved profitability and growth, which included the elimination of non-core products and initiatives. Additional charges related to the strategic review are expected in future periods. In the second quarter of 2003, a pre-tax charge to earnings of \$59.8 million was recorded. The net impact to Nasdaq was a pre-tax charge of \$57.8 million. The difference represented costs absorbed by minority shareholders of Nasdaq Europe. In the third quarter of 2003, an additional pre-tax charge to earnings of \$49.3 million was recorded relating to the continued elimination of the non-core products and initiatives, resulting in a total charge of \$109.1 million as of September 30, 2003. The charges were primarily recorded to Other accrued liabilities, Goodwill, Other intangible assets, Property and equipment and Accrued personnel costs on the Condensed Consolidated Balance Sheets.

The following table summarizes the strategic review charge included in the Condensed Consolidated Statements of Income:

	Three Months Ended September 30, 2003	Nine Months Ended September 30, 2003
(in millions)		
<u>Nasdaq Europe:</u>		
Write-down of technology platform	\$ 25.4	\$25.4
Severance and benefit costs	—	1.8
Impairment of goodwill	—	8.1
Other exit costs including contract terminations	0.7	4.9
Total Nasdaq Europe	26.1	40.2
<u>Other Non-Core Product Lines and Initiatives:</u>		
Loss on early extinguishments of debt	13.2	13.2
Severance and benefit costs	8.7	29.4
Impairment of capitalized software and fixed assets	—	7.8
Impairment of goodwill and intangible assets	1.1	7.1
Other exit costs	0.2	11.4
Total non-core product lines and initiatives	23.2	68.9
Total strategic review charge	\$ 49.3	\$ 109.1

Under the strategic review, Nasdaq decided to support the close of the market operated by Nasdaq Europe, a pan-European stock market located in Belgium in which Nasdaq owned a 63.0% interest as of September 30, 2003. At an Extraordinary General Meeting held on June 26, 2003, the shareholders of Nasdaq Europe voted to discontinue operations of the market. Since then, an orderly wind-down of market operations has been taking place pursuant to a Transition Plan approved by the Belgian Banking and Finance Commission. The orderly wind-down of Nasdaq Europe is approaching completion. Also, as part of Nasdaq's strategic review, during the third quarter of 2003, Nasdaq Europe supported the decision of the shareholders of Nasdaq Deutschland, a German exchange in which Nasdaq Europe had a 50.0% interest, to suspend that company's trading operations effective August 29, 2003. Nasdaq Europe transferred all of its shares in Nasdaq Deutschland to one of the other shareholders, BWB Holding AG, as of August 29, 2003. The charge related to the orderly wind-down and liquidation of market operations in Belgium and Germany was approximately \$26.1 million in the third quarter of 2003 and the charge related to the orderly wind-down and

liquidation of market operations in Belgium was \$14.1 million in the second quarter of 2003 (excluding the minority interest benefit of \$2.0 million) totaling \$40.2 million as of September 30, 2003. The \$40.2 million charge includes the \$25.4 million write-down to fair value of certain technology platforms held for sale and owned by Nasdaq Europe, the impairment of goodwill of \$8.1 million (Nasdaq Europe and Nasdaq Deutschland), severance costs of \$1.8 million, contract terminations of \$2.1 million and other costs of \$2.8 million.

Other non-core product lines and initiatives included in the strategic review include:

- Nasdaq Tools—Nasdaq Tools is an order management system that runs on the Nasdaq Application Programming Interface using the Nasdaq Workstation II® and will be wound-down during the remainder of 2003.
- NQLX—NQLX was a joint venture with LIFFE to create a market for single stock futures and other futures products. On July 24, 2003, Nasdaq redeemed its interest in the NQLX joint

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venture and transferred its ownership interest to NQLX. LIFFE assumed financial and management responsibility for NQLX. This change did not have any impact on the operation of NQLX, but usage of the Nasdaq brand by the company ceased.

- The Bulletin Board Exchange ("BBX")—BBX was a proposed platform for companies not eligible for the Nasdaq SmallCap MarketSM to raise equity capital and increase the visibility of their stock. The Over the Counter Bulletin Board ("OTCBB") will continue its existing operations.
- Liquidity Tracker—Liquidity Tracker was an automated order routing system designed to allow traders to direct orders to specific market makers based on recent trading activity. Liquidity Tracker ceased operations as of June 30, 2003.
- IndigoMarkets—was a joint venture with SSI to develop international trading platforms. On September 30, 2003, Nasdaq Global sold its interest in the joint venture to SSI.

The charge related to the elimination of the above other non-core products and initiatives was approximately \$1.3 million in the third quarter of 2003 and \$25.0 million in the second quarter of 2003, resulting in a total charge of \$26.3 million as of September 30, 2003. The \$1.3 million charge in the third quarter of 2003 primarily represented impairment of certain intangibles. Included in the \$25.0 million charge recorded in the second quarter of 2003 was the reduction of Nasdaq's investment in NQLX of \$6.3 million due to the redemption of Nasdaq's interest in the NQLX joint venture, the impairment of goodwill of \$4.1 million associated with Nasdaq Tools, impairment of various capitalized software and fixed assets of \$7.8 million, impairment of intangible assets of \$1.9 million and other costs of \$4.9 million.

In addition, the charges recorded in the third and second quarters of 2003 included severance costs of \$8.7 million and \$20.7 million, respectively, and the loss on early extinguishment of long-term debt of \$13.2 million recorded in the third quarter of 2003. The severance costs included \$6.9 million and \$4.3 million for the third and second quarters of 2003, respectively, related to the reductions in force of approximately 100 employees in the third quarter of 2003 and 110 employees in the second quarter of 2003. The remaining \$1.8 million and \$16.4 million of severance costs for the third and second quarters, respectively, relate to the fulfillment of employment contracts and obligations associated with the retirement and departure of certain members of senior management. Total headcount was 1,029 as of the end of September 2003 versus 1,155 as of the end of June 2003. The extinguishment of debt costs relate to the redemption of \$150.0 million in aggregate principal amount of Nasdaq's 5.83% Senior Notes due 2007 (the "Senior Notes"). In conjunction with its strategic review, Nasdaq reassessed its capital needs and determined that it no longer needed the liquidity of the Senior Notes. See Long-term debt section below for further discussion.

The following table summarizes the strategic review accrual activity from initiation of Nasdaq's activities through September 30, 2003. Note that such accruals are recorded to Other accrued liabilities

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and Accrued personnel costs in the current liabilities section of the Condensed Consolidated Balance Sheets. Nasdaq expects to fund the majority of these reserves by the end of the first quarter of 2004.

	Europe	Severance for U.S. Employees	Products & Other	Total
(in millions)				
Accrued liabilities associated with the strategic review as of June 30, 2003	\$ 9.4	\$ 20.7	\$ 4.0	\$ 34.1
Additional charges in the third quarter of 2003	—	8.7	—	8.7
Cash payments	(0.9)	(8.9)	(2.0)	(11.8)
Non-cash usage	(0.6)	(0.3)	(0.3)	(1.2)
Accrued liabilities associated with the strategic review as of September 30, 2003	\$ 7.9	\$ 20.2	\$ 1.7	\$ 29.8

Nasdaq currently expects to continue to recognize additional expenses throughout the balance of the year in the range of \$20.0 million to \$25.0 million related to the wind-down of these eliminated products and initiatives, excluding any reduction in force charges. Nasdaq continues to review its structure and may incur additional expenses to its Condensed Consolidated Statements of Income above the \$20.0 million to \$25.0 million range.

On March 27, 2001, Nasdaq acquired a majority ownership interest in the European Association of Securities Dealers Automated Quotation S.A./N.V., a pan-European stock market headquartered in Brussels, for approximately \$12.5 million. Nasdaq renamed the company Nasdaq Europe as part of a plan to restructure it into a globally linked, pan-European market. In the first quarter of 2002, Nasdaq Europe sold additional shares to a third party, resulting in an increase of \$0.7 million to Nasdaq's stockholders' equity.

In October 2002, Nasdaq Europe's strategic investors committed to convert the majority of Nasdaq Europe's external debt to equity. The conversion was formally approved by Nasdaq Europe's Board of Directors in March 2003. On May 26, 2003 the strategic investors converted approximately \$17.9 million or 63.3% of Nasdaq Europe's external debt to equity (\$51.5 million or 83.2% including intercompany debt with Nasdaq). After the conversion, Nasdaq had a 63.0% ownership interest in Nasdaq Europe.

As mentioned above, as part of the strategic review, the market operated by Nasdaq Europe is being wound-down. Also during the third quarter of 2003, the losses incurred exceeded the minority shareholders interests of Nasdaq Europe. Therefore, once the minority shareholders reached this point, Nasdaq absorbed 100.0% of Nasdaq Europe's losses and strategic review charges. See above for further discussion of the strategic review.

Nasdaq Deutschland

On October 30, 2002, Nasdaq's majority-owned subsidiary, Nasdaq Europe, the Berlin and Bremen Stock Exchanges, comdirekt bank, Commerzbank and Dresdner Bank, signed definitive agreements, dated as of October 4, 2002, to recapitalize Bremer Wertpapierbörse AG, a German stock exchange, that was rebranded as "Nasdaq Deutschland AG" and marketed under the Nasdaq brand. The recapitalization of Bremer Wertpapierbörse AG was finalized on January 21, 2003. This exchange, was initially 50.0% owned and controlled by Nasdaq Europe. Trading in international blue chip and growth stocks began on March 21, 2003 and trading in German stocks began on April 7, 2003. Nasdaq Europe agreed to provide certain platform services to Nasdaq Deutschland and Nasdaq agreed to guarantee

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the provision of such services for a limited period in certain circumstances if Nasdaq Europe no longer provides such services.

On August 11, 2003, the shareholders of Nasdaq Deutschland agreed to suspend that company's trading operations effective August 29, 2003. Nasdaq Europe also transferred all of its shares in Nasdaq Deutschland to one of the other shareholders, BWB Holding AG. The share transfer was effective on August 29, 2003. All shareholders of Nasdaq Deutschland agreed to release and discharge each other from certain claims that they may have had against each other in connection with certain agreements related to the operations and control of Nasdaq Deutschland. Finally, the shareholders of Nasdaq Deutschland requested termination of the guarantee agreement and license agreement for use of the Nasdaq name between Nasdaq and Nasdaq Deutschland and both agreements were terminated effective August 29, 2003.

As a result of these events, Nasdaq recognized costs from transferring its investment in Nasdaq Deutschland including a write-down of the trading platform used for Nasdaq Deutschland and the associated investment and goodwill. See the Strategic Review section above for further discussion of the costs incurred.

Prior to August 29, 2003, Nasdaq Europe consolidated Nasdaq Deutschland in its consolidated results. Nasdaq Europe's acquisition of Nasdaq Deutschland was accounted for under the purchase method of accounting, resulting in the initial recording of goodwill of \$2.0 million and an intangible asset of \$0.7 million.

Long-term Debt

On September 30, 2003, Nasdaq redeemed the \$150.0 million outstanding aggregate principal amount of its Senior Notes. In conjunction with its strategic review, Nasdaq reassessed its capital needs and determined that it no longer needed the liquidity of the Senior Notes. Nasdaq paid the holders of the Senior Notes \$150.0 million in outstanding principal amount, accrued interest of \$1.2 million and an aggregate make-whole payment of approximately \$12.6 million (representing the net present value of future payments). The repayment amounts reflected the terms of the Senior Notes, except that the parties agreed to a reduced make-whole amount equal to the excess of the discounted value of the remaining scheduled payments discounted at a factor equal to 100 basis points over the yield to maturity of U.S. Treasury securities having a maturity equal to the remaining average life of the redeemed amount. This represented a renegotiation of the 50 basis points over the yield to maturity required by the terms of the Senior Notes. Nasdaq recorded a \$13.2 million pre-tax charge in the third quarter related to the redemption of the Senior Notes. This charge included the make-whole payment and capitalized costs related to the issuance of the Senior Notes. Nasdaq used funds from available cash to finance the redemption.

Nasdaq issued the Senior Notes on May 9, 2002 in a private placement. The Senior Notes were unsecured, paid interest quarterly and were redeemable by Nasdaq at any time, subject to the make-whole payment. The proceeds from the Senior Notes, approximately \$149.0 million after payment of placement agent commissions and expenses of this offering, were used to fund a portion of the cash consideration paid to the National Association of Security Dealers, Inc. ("NASD") for the repurchase by Nasdaq of 33.8 million shares of Common Stock owned by the NASD and for general corporate purposes.

Nasdaq Japan

During the second quarter of 2002, Nasdaq recognized an other-than-temporary impairment charge on its equity investment in Nasdaq Japan. Nasdaq recognized this impairment as a result of the depressed level of market activity in Japan, combined with the suspension of Nasdaq Japan's hybrid trading system due to the inability to gain exchange approval of market rules and industry participation.

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These conditions led management to conclude that Nasdaq Japan would not be profitable in the foreseeable future. As a result, Nasdaq Japan's financial liabilities to Nasdaq were not expected to be repaid and were recognized as a loss.

The net impact of the other-than-temporary impairment on Nasdaq's pre-tax income for the three months ended June 30, 2002 was \$15.2 million. This represented a complete write-down of the investment, outstanding and unfunded loans (an additional \$6.0 million was loaned and \$7.0 million was committed

during the three months ended June 30, 2002), foreign exchange translation losses and other receivables, partially offset by a re-valuation of certain variable Nasdaq Japan stock based awards of approximately \$7.9 million.

On August 16, 2002, the Board of Directors of Nasdaq Japan voted to take the company to dormant status, effectively ceasing operations. After careful consideration, Nasdaq Japan's Board concluded that under the economic circumstances there was not a profitable path forward for the company. Nasdaq Japan entered into liquidation status in late November 2002 and was completely dissolved by the end of May 2003. Companies listed on the Nasdaq Japan Market retained their listing on the Osaka Exchange and experienced no disruption to trading.

During the second quarter of 2003, Nasdaq reversed \$5.0 million of the reserves related to Nasdaq Japan due to favorable contract negotiations and lower legal costs resulting from the complete liquidation of Nasdaq Japan.

Nasdaq Member Revenue Sharing

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

On August 1, 2003, Nasdaq filed with the SEC an immediately effective general revenue sharing program. Under the program, the Finance Committee of the Nasdaq Board of Directors may (but is not required to) opt to share a percentage of revenues from transactions in securities listed on The Nasdaq National Market® and The Nasdaq SmallCap Market (including market data revenue) attributable to certain market participants with these participants. Nasdaq did not share any revenues with market participants under the program during the third quarter of 2003.

Nasdaq Tools

On July 31, 2002, Nasdaq Tools, which provides software products and services related to the broker-dealer industry to be used in conjunction with Nasdaq Workstation II software, was merged into Nasdaq in a statutory merger under the General Corporation Law of the State of Delaware. Nasdaq Tools was previously a wholly-owned subsidiary of Nasdaq. Pursuant to the merger, Nasdaq acquired all assets and assumed all liabilities and obligations of Nasdaq Tools and now operates Nasdaq Tools as Nasdaq Trading Applications, a part of Nasdaq's Transaction Services business products. Nasdaq Trading Applications provides software products and developed software products used by the broker-dealer industry. As discussed above, Nasdaq will wind-down Nasdaq Tools during the remainder of 2003. Prior to July 31, 2002, revenue from Nasdaq Tools was disclosed as Other Revenue. As such, prior period amounts have been reclassified to conform to the current period presentation.

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 Corporate Client Group revenues.

In accordance with accounting principles generally accepted in the United States, as SAB 101 was adopted effective the fourth quarter of 2000, the change in accounting principle has been applied as of January 1, 2000. In accordance with applicable accounting guidance prior to SAB 101, Nasdaq recognized revenue for issuer initial listing fees and 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.

For the three months ended September 30, 2003 and September 30, 2002, Nasdaq recognized \$4.7 million and \$7.5 million in revenue, respectively, that was included in the cumulative effect adjustment as of January 1, 2000. This revenue contributed \$2.9 million (after income taxes of \$1.8 million) and \$4.5 million (after income taxes of \$3.0 million) to net income for the three months ended September 30, 2003 and September 30, 2002, respectively.

For the nine months ended September 30, 2003 and September 30, 2002, Nasdaq recognized \$16.2 million and \$24.9 million in revenue, respectively, that was included in the cumulative effect adjustment as of January 1, 2000. This revenue contributed \$9.9 million (after income taxes of \$6.3 million) and \$15.1 million (after income taxes of \$9.8 million) to net income for the nine months ended September 30, 2003 and September 30, 2002, respectively.

4. Deferred Revenue

Nasdaq's deferred revenue as of September 30, 2003 related to Corporate Client Group fees will be recognized in the following years:

	Initial	LAS	Annual and Other	Total
(amounts in thousands)				
Fiscal year ended:				
2003	\$ 7,811	\$ 8,921	\$ 23,485	\$ 40,217
2004	28,050	28,068	—	56,118
2005	21,721	18,182	—	39,903
2006	11,533	7,825	—	19,358
2007 and thereafter	11,031	1,877	—	12,908

Nasdaq's deferred revenue for the nine months ended September 30, 2003 and 2002 are reflected in the following tables. The additions reflect Corporate Client Group revenue charged during the

period while the amortization reflects the Corporate Client Group revenue recognized during the period based on the accounting methodology described in Note 3, Change in Accounting Principle.

	Initial	LAS	Annual and Other	Total
(amounts in thousands)				
Balance at January 1, 2003	\$ 93,857	\$ 72,841	\$ —	\$ 166,698
Additions	10,601	19,879	97,867	128,347
Amortization	(24,312)	(27,847)	(74,382)	(126,541)
Balance at September 30, 2003	\$ 80,146	\$ 64,873	\$ 23,485	\$ 168,504
(amounts in thousands)				
Balance at January 1, 2002	\$ 104,629	\$ 82,424	\$ —	\$ 187,053
Additions	15,907	24,854	103,752	144,513
Amortization	(25,199)	(28,242)	(78,674)	(132,115)
Balance at September 30, 2002	\$ 95,337	\$ 79,036	\$ 25,078	\$ 199,451

5. Long-term Debt and Credit Arrangements

Nasdaq had \$268.3 million of outstanding long-term debt (\$28.3 million of senior notes and \$240.0 million of subordinated notes) at September 30, 2003. At September 30, 2003, \$5.0 million of senior notes are scheduled to mature in 2003.

On September 30, 2003, Nasdaq redeemed its \$150.0 million outstanding principal amount of the Senior Notes. Under the terms of the Senior Notes, Nasdaq paid the holders of the Senior Notes \$150.0 million in outstanding principal amount, accrued interest of \$1.2 million and an aggregate make-whole payment of approximately \$12.6 million (representing the net present value of future payments). Nasdaq recorded a \$13.2 million pre-tax charge in the third quarter related to the redemption of the Senior Notes. This charge included the make-whole payment and capitalized costs related to the issuance of the Senior Notes. Nasdaq used funds from available cash to finance the redemption. See Note 2, Significant Transactions, for further discussion of the redemption.

Long-term subordinated notes represents \$240.0 million of Nasdaq's 4.0% convertible subordinated notes due May 2006 (the "Subordinated Notes") issued and sold to Hellman & Friedman Capital Partners IV, L.P. and certain of its affiliated limited partnerships (collectively, "Hellman & Friedman") in 2001. The annual 4.0% coupon will be payable in arrears in cash and the Subordinated Notes are convertible at any time into an aggregate of 12.0 million shares of Common Stock at \$20.00 per share, subject to adjustment, in general, for any stock split, dividend, combination, recapitalization or other similar event. On an as-converted basis as of September 30, 2003, Hellman & Friedman owned an approximate 13.8% equity interest in Nasdaq as a result of its ownership of the Subordinated Notes and 500,000 shares of Common Stock.

On August 29, 2002, Nasdaq entered into an unsecured revolving-credit facility (the "Facility"), which was syndicated to five banks. The Facility made \$150.0 million available to Nasdaq for a 364-day term for general corporate purposes. Nasdaq had not utilized this Facility and decided to terminate the Facility effective June 26, 2003.

SFAS No. 34, "Capitalization of Interest Cost" ("SFAS 34"), requires the capitalization of interest as part of the historical cost of acquiring assets, generally those assets that require a period of time to get them ready for their internal use. AICPA Statement of Position 98-1, "Accounting for the Costs of

Computer Software Developed or Obtained for Internal Use," includes interest costs incurred while developing internal-use software as capitalizable costs under SFAS 34. As the effect of capitalization of interest cost related to the development of internal-use software is not material when compared with the effect of expensing these interest costs as incurred, all interest costs have been expensed.

6. Stock-Based Compensation

In the first quarter of 2003, Nasdaq adopted SFAS No. 148 "Accounting for Stock-Based Compensation—Transition and Disclosure" ("SFAS 148"). SFAS 148 amends the disclosure requirements of SFAS No. 123 "Accounting for Stock-Based Compensation" ("SFAS 123") and requires disclosure in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results.

Nasdaq grants stock options with an exercise price equal to the estimated fair value of the Common Stock on the date of the grant. Nasdaq accounts for stock options in accordance with Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees" ("APB 25"), and accordingly recognizes no compensation expense related to such grants.

Pro forma information regarding net income and earnings per share is required under SFAS 148 and has been determined as if Nasdaq had accounted for all stock options based on a fair value method. The fair value of each stock option grant was estimated at the date of grant using the Black-Scholes valuation model. Pro forma net income includes the amortization of the fair value of stock options over the vesting period. The pro forma information for the three and nine months ended September 30, 2003 and 2002 is as follows:

	Three months ended September 30, 2003		Three months ended September 30, 2002	
	Reported	Pro forma	Reported	Pro forma
(amounts in thousands, except per share amounts)				
Reported net (loss) income	\$ (38,008)	\$ (38,008)	\$ 12,711	\$ 12,711
Stock-based compensation cost (net of tax of \$2,163 and \$1,137, respectively)	—	(3,351)	—	(1,762)
Pro forma net (loss) income	\$ —	\$ (41,359)	\$ —	\$ 10,949
Basic (loss) earnings per share	\$ (0.52)	\$ (0.56)	\$ 0.13	\$ 0.11
Diluted (loss) earnings per share	\$ (0.52)	\$ (0.56)	\$ 0.13	\$ 0.11
	Nine months ended September 30, 2003		Nine months ended September 30, 2002	
	Reported	Pro forma	Reported	Pro forma
(amounts in thousands, except per share amounts)				
Reported net (loss) income	\$ (84,450)	\$ (84,450)	\$ 42,808	\$ 42,808
Stock-based compensation cost (net of tax of \$5,388 and \$3,351, respectively)	—	(8,348)	—	(5,192)
Pro forma net (loss) income	\$ —	\$ (92,798)	\$ —	\$ 37,616
Basic (loss) earnings per share	\$ (1.15)	\$ (1.26)	\$ 0.42	\$ 0.35
Diluted (loss) earnings per share	\$ (1.15)	\$ (1.26)	\$ 0.40	\$ 0.35

7. Commitments and Contingencies

Nasdaq Europe

As of June 30, 2003, €31.8 million (\$36.6 million) was funded in the form of a loan fulfilling a commitment to Nasdaq Europe. Of the funded amount, €14.4 million (\$16.6 million) was used to finance the operations of Nasdaq Europe through 2002. During the first and second quarters of 2003, an additional €11.6 million (\$13.3 million) was funded for 2003 operations. The remaining €5.8 million (\$6.7 million) was used to enable Nasdaq Europe to invest in Nasdaq Deutschland, a venture among Nasdaq Europe, several German banks and two regional German exchanges. In October 2002, Nasdaq Europe's strategic investors committed to convert the majority of Nasdaq Europe's external debt to equity. The conversion was formally approved by Nasdaq Europe's Board of Directors in March 2003. On May 26, 2003, the strategic partners converted 63.3% of Nasdaq Europe's external debt (or 83.2% including intercompany debt with Nasdaq).

On June 24, 2003, Nasdaq's Board of Directors approved an up to \$13.0 million additional commitment in the form of a subordinated loan for the wind-down of market operations of Nasdaq Europe, which was to be conducted pursuant to a Transition Plan approved by the Belgian Banking and Finance Commission. The funding has enabled Nasdaq Europe to conduct an orderly transition of listed issuers, as required under Belgian law, renew certain essential contracts during the wind-down period, satisfy certain severance obligations and operate the Nasdaq Deutschland platform until the closure of the Nasdaq Deutschland market on August 29, 2003. As of September 30, 2003, \$10.7 million was funded to Nasdaq Europe and to its wholly-owned subsidiary Nasdaq Europe Limited as a part of the wind-down commitment. The remaining \$2.3 million was funded in October 2003 fulfilling Nasdaq's commitment.

Nasdaq Deutschland Guarantee

Nasdaq agreed to guarantee the provision of certain support and maintenance services for the trading platform to be operated by Nasdaq Deutschland in the event Nasdaq Europe was no longer able to provide such services. In August 2003, the shareholders of Nasdaq Deutschland requested that Nasdaq terminate the guarantee as part of the process of suspending trading operations. The guarantee was terminated effective August 29, 2003. See Note 2, Significant Transactions, for further discussion of Nasdaq Deutschland.

Nasdaq Insurance Agency

In December 2002, Nasdaq purchased the NASD's 50.0% interest in the NASD Insurance Agency (subsequently renamed the Nasdaq Insurance Agency, LLC ("NIA")). Nasdaq's consideration for the NASD's 50.0% interest consisted of an upfront payment of \$0.5 million and up to \$5.1 million based on NIA's stream of contingent cash flow through 2011. Nasdaq will pay the NASD up to: (a) 20% of NIA's cash flows until Nasdaq has paid the NASD \$2.3 million from cash flows; (b) 10% of NIA's cash flows until Nasdaq has paid the NASD a cumulative amount of \$3.0 million from cash flows; (c) 5% of NIA's cash flows until the earlier of Nasdaq paying the NASD the full cumulative amount of \$5.1 million from cash flows or December 31, 2011. As of September 30, 2003,

Nasdaq recorded a \$0.10 million dividend to the NASD for the NIA's 2003 cash flows. The dividend was reflected as a reduction in Additional paid-in capital on Nasdaq's Condensed Consolidated Balance Sheet.

Amex Technology Separation

During 2001, Nasdaq agreed to fund a portion of the necessary expenses related to the separation of software, hardware and data under a plan to transition technology applications and support from Nasdaq to Amex. The NASD originally integrated certain Nasdaq and Amex technology subsequent to the 1998 acquisition of Amex by the NASD. The total estimated cost of the separation had been

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established at a maximum of \$29.0 million, and was shared evenly between Nasdaq and the NASD. In 2002 and 2001, Nasdaq accrued \$5.3 million and \$9.2 million, respectively under this commitment, fulfilling its commitment. As of September 30, 2003, \$4.8 million has been paid to Amex.

NQLX

On June 1, 2001, Nasdaq signed an agreement with LIFFE creating NQLX, a U.S. joint venture company to list and trade single stock futures. On November 8, 2002, Nasdaq launched NQLX. The Nasdaq Board approved a capital contribution of \$25.0 million to the NQLX joint venture. As of June 30, 2003, \$23.0 million had been contributed and Nasdaq also agreed to redeem its interest in the NQLX joint venture. On July 17, 2003, Nasdaq fulfilled its remaining funding obligation by contributing \$2.0 million to NQLX, with the aggregate contributions totaling \$25.0 million. On July 24, 2003, Nasdaq, LIFFE and NQLX executed a Redemption and Separation Agreement, at which time Nasdaq ceased to be a partner of NQLX for state law purposes and ceased to share in partnership profits. See Note 2, Significant Transactions, for further discussion.

General Litigation

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

8. Comprehensive Income

Comprehensive income is calculated in accordance with SFAS No. 130, "Reporting Comprehensive Income." Comprehensive income is composed of net income and other comprehensive income, which includes the after-tax change in unrealized gains and losses on available-for-sale securities, minimum pension liability and foreign currency translation adjustments.

The following table outlines the changes in other comprehensive income for the three and nine months ended September 30, 2003 and 2002:

	Three months ended		Nine months ended	
	September 30, 2003	September 30, 2002	September 30, 2003	September 30, 2002
(amounts in thousands)				
Net (loss) income	\$ (38,008)	\$ 12,711	\$ (84,450)	\$ 42,808
Unrealized (losses) on available-for-sale securities	(1,111)	(2,429)	(549)	(4,938)
Foreign currency translation adjustment	(2,776)	1,145	1,268	5,627 ⁽¹⁾
Total comprehensive income	\$ (41,895)	\$ 11,427	\$ (83,731)	\$ 43,497

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

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9. Capital Stock and Earnings Per Share

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

	Three months ended		Nine months ended	
	September 30, 2003	September 30, 2002	September 30, 2003	September 30, 2002
(amounts in thousands, except share and per share amounts)				
Numerator				
Net (loss) income	\$ (38,008)	\$ 12,711	\$ (84,450)	\$ 42,808
Preferred Stock:				
Dividends declared ⁽²⁾	(2,542)	—	(5,736)	—
Accretion of preferred stock	—	(2,441)	—	(7,323)

Net (loss) income applicable to common stockholders for basic earnings per share	\$	(40,550)	\$	10,270	\$	(90,186)	\$	35,485
Interest impact of convertible debt, (net of tax of \$941 and \$2,824, respectively)		—		1,459		—		4,376
Numerator for diluted earnings per share	\$	(40,550)	\$	11,729	\$	(90,186)	\$	39,861
Denominator								
Weighted average common shares for basic earnings per share		78,431,581		78,171,172		78,360,187		85,492,136
Weighted-average affect of dilutive securities:								
Warrants		—		—		—		16,845
Employee stock options		368,763		55,966		311,019		806,337
Employee restricted stock		119,239		189,863		115,729		211,220
Convertible debt assumed converted into Common Stock		—		12,000,000		—		12,000,000
Denominator for diluted earnings per share		78,919,583		90,417,001		78,786,935		98,526,538
Earnings per common share:								
Basic (loss) earnings per share	\$	(0.52)	\$	0.13	\$	(1.15)	\$	0.42
Diluted (loss) earnings per share	\$	(0.52)	\$	0.13	\$	(1.15)	\$	0.40

(2) Dividends payable to the NASD as a holder of Nasdaq's Series A Preferred Stock began accruing in March 2003. The Series A Preferred Stock carries a 7.6% dividend rate for the year commencing March 2003 and 10.6% in all subsequent years. Nasdaq is obligated to pay this dividend to the extent of its capital surplus. As of March 31, 2003, the dividend payable totaled \$0.7 million. As of June 2003 and for all future quarters in 2003, the dividend will be approximately \$2.5 million.

Options to purchase 13,775,481 shares of Common Stock and 479,648 shares of Common Stock underlying warrants issued by Nasdaq were outstanding at September 30, 2003. For the three and nine months ended September 30, 2003, 2,275,000 of the options outstanding were included in the computation of diluted earnings per share, on a weighted average basis, as their inclusion was dilutive. The remaining options and all the shares underlying the warrants issued by Nasdaq were considered antidilutive and were properly excluded. For the three and nine months ended September 30, 2003 the 12,000,000 shares underlying the Subordinated Notes were also considered antidilutive and were properly excluded.

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10. Subsequent Events

Quadsan

On October 31, 2003, Quadsan was merged into Nasdaq in a statutory merger under the General Corporation Law of the State of Delaware. Quadsan was previously a wholly-owned subsidiary of Nasdaq. Pursuant to the merger, Nasdaq acquired all assets and assumed all liabilities and obligations of Quadsan. Quadsan was a Delaware investment holding company providing investment management services for Nasdaq. Nasdaq now directly manages these investment services.

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The Nasdaq Stock Market, Inc.

Item 2. 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.

Business Environment

The rally in market indices that began in October 2002 continued during the three months ended September 30, 2003 with the Nasdaq Composite Index® rising 10.1% during the quarter and 33.8% in the nine months ended September 30, 2003. However, despite the rise in prices, the number of shares traded in Nasdaq-listed securities increased only marginally during the three months ended September 30, 2003 relative to the three months ended September 30, 2002. Average daily share volume for Nasdaq-listed securities in the three months ended September 30, 2003 was 1.73 billion shares compared to 1.72 billion shares in the three months ended September 30, 2002, a 0.6% increase. Furthermore, average daily share volume decreased 3.4% in the three months ended September 30, 2003 when compared to the 1.79 billion average daily share volume in the three months ended June 30, 2003, a result of a seasonal decrease in trading during the summer.

The generally flat trading activity, despite the rally in market indices, combined with the intense competitive environment had a negative impact on Nasdaq's revenue. The effects of competition during the three months ended September 30, 2003 were reflected in lower prices, reduced market share, weaker demand and reduced revenue for Nasdaq Transaction Services and Market Information Services. However, one area of growth was in new offerings of securities. In the three months ended September 30, 2003, Nasdaq had 14 initial public offerings ("IPOs") compared to six in the three months ended September 30, 2002. Although the level of new security offerings increased over year ago levels, the current pace remains low by historical standards. There were also increases in secondary offerings. In the three months ended September 30, 2003, Nasdaq had 60 secondary offerings compared to 15 in the three months ended September 30, 2002. The prospects for future revenue growth for Nasdaq will depend on the extent to which an improving economic environment offsets the ongoing competitive pressures in the trading arena.

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, which became effective for SEC reporting companies in the fourth quarter of 2000. Nasdaq became a SEC public reporting company on June 29, 2001, the effective date of its Registration Statement on Form 10. As a result of the discussions with the SEC, Nasdaq changed its method of accounting for revenue recognition for certain components of its Corporate Client Group revenues.

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

For the three months ended September 30, 2003 and September 30, 2002, Nasdaq recognized \$4.7 million and \$7.5 million in revenue, respectively, that was included in the cumulative effect adjustment as of January 1, 2000. This revenue contributed \$2.9 million (after income taxes of

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\$1.8 million) and \$4.5 million (after income taxes of \$3.0 million) to net income for the three months ended September 30, 2003 and September 30, 2002, respectively.

For the nine months ended September 30, 2003 and September 30, 2002, Nasdaq recognized \$16.2 million and \$24.9 million in revenue, respectively, that was included in the cumulative effect adjustment as of January 1, 2000. This revenue contributed \$9.9 million (after income taxes of \$6.3 million) and \$15.1 million (after income taxes of \$9.8 million) to net income for the nine months ended September 30, 2003 and September 30, 2002, respectively.

Results of Operations

For the Three Months Ended September 30, 2003 and September 30, 2002

Financial Overview. Nasdaq's financial position can vary due to a number of factors discussed throughout this "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in "Item 1. Business—Risk Factors" as filed in Nasdaq's Annual Report on Form 10-K for the year ended December 31, 2002. The following table sets forth an overview of Nasdaq's financial results:

	Three months ended September 30,	
	2003	2002
(in millions, except per share amounts)		
Total revenues	\$ 144.8	\$ 198.8
Total direct expenses	125.7	152.3
Total expenses	190.4	173.4
Net (loss) income before taxes	(46.0)	24.9
Net (loss) income	(38.0)	12.7
Net (loss) income applicable to common stockholders	(40.5)	10.3
Basic and diluted (loss) earnings per common share	(0.52)	0.13

Revenues

The following table sets forth Total Revenues:

	Three months ended September 30,	
	2003	2002
(in millions)		
Transaction Services	\$ 54.4	\$ 93.2
Market Information Services	36.0	49.7
Corporate Client Group	41.2	44.3
Other	13.2	11.6
Total Revenues	\$ 144.8	\$ 198.8

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The following table sets forth revenues from Transaction Services:

	Three months ended September 30,	
	2003	2002
(in millions)		
Access Services	\$ 26.1	\$ 34.7
Execution Services:		
Execution Revenue	49.4	54.6
Liquidity Rebate	(30.3)	(17.6)
Execution Services Revenue, net of Liquidity Rebate	19.1	37.0
Trade Reporting	8.4	19.9
Other Transaction Services Revenue	0.8	1.6
Total Transaction Services Revenue	\$ 54.4	\$ 93.2

For the three months ended September 30, 2003, Transaction Services revenue was \$54.4 million compared with \$93.2 million for the three months ended September 30, 2002, a decrease of \$38.8 million or 41.6%.

Access Services revenue was \$26.1 million for the three months ended September 30, 2003 compared with \$34.7 million for the three months ended September 30, 2002, a decrease of \$8.6 million or 24.8%. This decrease was primarily due to the reduction in the number of trader log-ons to Nasdaq systems reflecting market participant consolidations. Access Services revenue is derived from Nasdaq Workstation II and Application Programming Interfaces, Computer-to-Computer Interface ("CTCI"), Nasdaq Tools and the Nasdaq Weblink system ("Weblink"). As discussed in Note 2, Significant Transactions, Nasdaq will wind-down Nasdaq Tools during the remainder of 2003.

The Nasdaq Workstation II and the Application Programming Interface are the primary means by which traders access Nasdaq's quote and trade execution facilities, providing access to quotation services, automated trade executions, real-time reporting, trade negotiations and clearing. These access devices provided revenue of \$21.7 million for the three months ended September 30, 2003 compared with \$29.4 million for the three months ended September 30, 2002, a decrease of \$7.7 million or 26.2%. This decrease was primarily due to the reduction in the number of trader log-ons reflecting market participant consolidations. Nasdaq Workstation II and Application Programming Interface fees are charged monthly based upon the number of authorized log-on identifications.

Nasdaq provides CTCI for users to report trades, enter orders into SuperMontageSM and receive execution messages. (See discussion of SuperMontage below.) CTCI links market participants' automated systems to Nasdaq. CTCI provided revenues of \$3.6 million for the three months ended September 30, 2003 compared with \$4.1 million for the three months ended September 30, 2002, a decrease of \$0.5 million or 12.2%. This decrease was primarily due to a price decrease on April 1, 2003. Users are charged a monthly fee based upon the bandwidth of the line.

Also included in Access Services are Nasdaq Tools and Weblink, which totaled \$0.3 million and \$0.5 million, respectively, for the three months ended September 30, 2003 and \$0.8 million and \$0.4 million, respectively, for the three months ended September 30, 2002. Prior to July 31, 2002, revenue from Nasdaq Tools was disclosed as Other revenue. Prior period amounts have been reclassified to conform to the current period presentation of revenue for Access Services and Other revenue.

Execution Revenue was \$49.4 million for the three months ended September 30, 2003 compared with \$54.6 million for the three months ended September 30, 2002, a decrease of \$5.2 million or 9.5%. The Liquidity Rebate, in which Nasdaq credits a portion of the per share execution charge through a liquidity rebate to the market participant that provides the liquidity, was \$30.3 million for the three months ended September 30, 2003 compared with \$17.6 million for the three months ended September 30, 2002, an increase of \$12.7 million or 72.2%. Execution Revenue, net of the Liquidity Rebate totaled \$19.1 million for the three months ended September 30, 2003 compared with \$37.0 million for the three months ended September 30, 2002, a decrease of \$17.9 million or 48.4%.

The decrease in Execution Revenue was primarily due to a lower market share in the third quarter of 2003 compared with the third quarter of 2002 resulting from increased competition and shifts in market composition and the elimination of a quote update fee. The percentage of share volume executed in Nasdaq's systems was 16.5% in the third quarter of 2003 compared to 23.2% in the third quarter of 2002. Nasdaq eliminated a quote update fee that was charged to market participants for updating quotes on The Nasdaq National Market and The Nasdaq SmallCap Market on February 1, 2003. The quote update fee was \$5.8 million for the three months ended September 30, 2002. These decreases in Execution Revenue were partially offset by an increase, during the fourth quarter of 2002, in the per share execution charge. However, the increase in the per share execution charge had no effect on Execution Services Revenue, net of the Liquidity Rebate since the amount shared through the Liquidity Rebate (see discussion below) also increased by the same amount.

The increase in the Liquidity Rebate was due to an increase in the amount rebated during the fourth quarter of 2002. However, as discussed above, this increase did not effect Execution Services Revenue, net of the Liquidity Rebate as this increase was offset by the increase in the per share execution charge. Execution Services Revenue is primarily derived from SuperMontage, Advanced Computer Execution Systems ("ACES") and Computer Assisted Execution System ("CAES").

In the fourth quarter of 2002, Nasdaq fully implemented SuperMontage, a new trading system designed to refine how market participants can access, process, display and integrate orders and quotes in The Nasdaq Stock Market. In the first quarter of 2003, Nasdaq enhanced SuperMontage's functionality to allow non-market maker firms the ability to post non-attributable bids and offers on the SuperMontage platform, thereby improving SuperMontage liquidity and

expanding its user base. In the third quarter of 2003, Nasdaq further enhanced SuperMontage's functionality to include the Financial Information Exchange protocol ("FIX"). FIX is a language that defines electronic messages for communicating securities transactions between two parties. It is a standard format used today by a majority of U.S. firms in the equity securities business. FIX defines only the format of the messages and is not a software application in its own right. SuperMontage replaced SuperSoesSM, SelectNet[®] and the Small Order Execution System ("SOESSM"). (See discussion of SuperSoes, SelectNet and SOES below.) SuperMontage revenue, net of the Liquidity Rebate of \$30.3 million, was \$18.2 million for the three months ended September 30, 2003. SuperMontage fees are charged on a per share basis.

SuperSoes was Nasdaq's primary execution system prior to the implementation of SuperMontage. SuperSoes combined features of the previously existing SelectNet and SOES execution systems and was only available for securities listed on The Nasdaq National Market tier of The Nasdaq Stock Market. SuperSoes revenue, net of the Liquidity Rebate of \$17.6 million, was \$22.3 million for the three months ended September 30, 2002 and the quote update fee was \$5.8 million for the three months ended September 30, 2002. SuperSoes fees were charged on a per share basis. Nasdaq retired the SuperSoes system in December 2002.

The SelectNet execution system provided revenue of \$7.0 million for the three months ended September 30, 2002. Prior to the implementation of SuperMontage, SelectNet functioned as an order delivery service to facilitate trading of Nasdaq-listed securities by linking market participants. During 2002, SelectNet served primarily as a means for participants to reach electronic communication network

("ECN") quotes on The Nasdaq National Market and The Nasdaq SmallCap Market and was also a tool for market participants seeking to negotiate trades with specific market makers, or to broadcast such an order to all market makers. SelectNet fees were charged on a per transaction basis. Nasdaq retired the SelectNet system in December 2002.

Revenue from SOES, which was used during 2002 solely for transactions on The Nasdaq SmallCap Market, accounted for less than 1% of revenue for the three months ended September 30, 2002. Nasdaq retired the SOES system in December 2002.

Also included in Execution Services revenue is revenue derived from ACES, CAES and the Primex Auction System ("PrimexTM"). Aggregate revenues from ACES, CAES and Primex totaled \$0.9 million for the three months ended September 30, 2003 compared with \$1.9 million for the three months ended September 30, 2002, a decrease of \$1.0 million or 52.6%. CAES is an automatic and order delivery execution system for NYSE and Amex-listed securities. ACES is an order routing tool that routes orders directly between market participants. Primex is an electronic auction-trading platform.

Trade Reporting revenue totaled \$8.4 million for the three months ended September 30, 2003 compared with \$19.9 million for the three months ended September 30, 2002, a decrease of \$11.5 million or 57.8%. This decrease was primarily due to the reporting of trades to regional exchanges and the NASD's Alternative Display Facility ("ADF") and price reductions. Price reductions were initiated in April 2003 for securities listed on The Nasdaq National Market and The Nasdaq SmallCap Market that were matched and executed exclusively through the order books of individual market participants or through other automated execution systems ("locked-in"). On July 1, 2003, Nasdaq eliminated the fee for locked-in transaction reports for securities listed on The Nasdaq National Market and The Nasdaq SmallCap Market. Price reductions were also initiated in April 2003 and June 2003 for transaction reports initiated through SuperMontage. Revenue from Trade Reporting is derived from Automated Confirmation Transaction Services ("ACTSM"), an automated service that provides the post-execution steps of price reporting, volume comparison, clearing of pre-negotiated trades and risk management services. ACT fees are primarily charged on a per transaction basis.

Market Information Services

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

	Three months ended September 30,	
	2003	2002
(in millions)		
Level 1 Service	\$ 31.8	\$ 34.6
Nasdaq Quotation Dissemination Service ("NQDS")	9.5	8.9
ViewSuite	3.1	—
Nasdaq InterMarket SM :		
Tape Fee Revenue	6.8	14.2
Tape Fee Revenue Sharing	(3.3)	(5.8)
Tape Fee Revenue, net of Revenue Sharing	3.5	8.4
Unlisted Trading Privileges ("UTP")	(15.2)	(4.7)
Other Market Information Services Revenue	3.3	2.5
Total Market Information Services Revenue	\$ 36.0	\$ 49.7

For the three months ended September 30, 2003, Market Information Services revenue was \$36.0 million compared with \$49.7 million for the three months ended September 30, 2002, a decrease of \$13.7 million or 27.6%.

Nasdaq's Level 1 Service provides last trade and current inside quote information for securities listed on The Nasdaq Stock Market. Level 1 revenue totaled \$31.8 million for the three months ended September 30, 2003 compared with \$34.6 million for the three months ended September 30, 2002, a decrease of \$2.8 million or 8.1%. This decrease was primarily due to cost saving initiatives among Nasdaq's market participants and market participant consolidations causing a decrease in professional Level 1 subscriptions. Fees for professional users are based on monthly subscriptions to terminals or access lines. Providers of Level 1 data to non-professional users have the option to offer this information through either a flat monthly rate or a per query charge.

NQDS provides subscribers with the best quote from each Nasdaq market participant. NQDS revenue totaled \$9.5 million for the three months ended September 30, 2003 compared with \$8.9 million for the three months ended September 30, 2002, an increase of \$0.6 million or 6.7%. This increase was primarily due to an increase in non-professional subscriptions resulting from increased consumer interest in the equity markets. This increase was partially offset by a decrease in professional subscriptions primarily due to cost saving initiatives among Nasdaq's market participants and market participant consolidations. NQDS revenue is derived from monthly subscriptions.

In the fourth quarter of 2002, Nasdaq launched three new proprietary data products in conjunction with the launch of SuperMontage. These new data products: Nasdaq DepthViewSM, PowerViewSM and TotalViewSM (collectively referred to as the "ViewSuite" products), offer a wide array of quotation information to market data vendors and broker-dealer distributors. DepthView shows the aggregate size, by price level, of all Nasdaq market participants' quotations/orders that are in the top five price levels in SuperMontage. PowerView bundles NQDS and DepthView. TotalView offers the PowerView services and shows all Nasdaq market participants' quotations/orders that are in the top five price levels in SuperMontage, in addition to the aggregate size of all unattributed (i.e., providing pre-trade anonymity) quotes/orders in each of the top five price levels. Nasdaq began charging for its ViewSuite data products in the first quarter of 2003. ViewSuite revenue was \$3.1 million for the three months ended September 30, 2003.

Each ViewSuite product is offered through distributors to professional subscribers for a monthly fee per terminal and DepthView and PowerView are offered to non-professional subscribers for a lower monthly fee per terminal. In addition, Nasdaq charges the distributor a monthly fee for each ViewSuite product.

In October 2003, Nasdaq consolidated DepthView and PowerView into TotalView and reduced its price for professional and non-professional users.

Nasdaq InterMarket Tape Fee revenues are derived from data revenue generated by the Consolidated Quotation Plan and the Consolidated Tape Association Plan (collectively, "CQ/CTA Plans"). The information collected under the CQ/CTA Plans is sold to data vendors, who in turn sell it to the public. Nasdaq's InterMarket tape revenue is directly related to both its percentage of trades in exchange-listed securities that are reported through the CQ/CTA Plans and the size of the revenue sharing pool. Nasdaq InterMarket Tape Fee revenue totaled \$6.8 million for the three months ended September 30, 2003 compared with \$14.2 million for the three months ended September 30, 2002, a decrease of \$7.4 million or 52.1%. This decrease was primarily due to the Island ECN ("Island") reporting certain additional trading activity to the Cincinnati Stock Exchange beginning in the fourth quarter of 2002. Part of Nasdaq's CQ/CTA Tape Fee revenue is shared with market participants. Nasdaq InterMarket Tape Fee revenue sharing was \$3.3 million for the three months ended September 30, 2003 compared with \$5.8 million for the three months ended September 30, 2002, a decrease of \$2.5 million or 43.1%. This decrease was primarily due to Island reporting trade activity to the Cincinnati Stock Exchange, which reduced the amount of revenue Nasdaq was obligated to share with Island. Partially offsetting the decrease in Tape Fee Revenues, net of Revenue Sharing, Nasdaq receives licensing fees from regional exchanges that report trades in Nasdaq-100 Index Tracking StockSM

("QQQ"SM), an exchange traded fund, which are reported as Other revenue in the Condensed Consolidated Statements of Income. See discussion of Other revenue for further information regarding QQQ.

Nasdaq shares Tape Fee revenue (i.e., revenue from the sale of tape data) for Nasdaq-listed securities through the UTP Plan. Tape Fees are shared with regional exchanges that are members of the UTP Plan and that trade Nasdaq-listed securities. UTP Plan participants are paid based on the total shares and trades that they execute as a percentage of all shares and trades executed in securities listed on The Nasdaq Stock Market. Nasdaq Tape Fee revenue sharing with UTP Plan participants totaled \$15.2 million for the three months ended September 30, 2003 compared with \$4.7 million for the three months ended September 30, 2002, an increase of \$10.5 million. This increase was primarily due to the trade reporting activity from the ADF, which became an active UTP Plan participant in the first quarter of 2003, the Pacific Exchange, which became an active UTP Plan participant in the second quarter of 2003 and additional trade reporting activity from The Cincinnati Stock Exchange due to the BRUT ECN reporting locked-in trades to the Cincinnati Stock Exchange beginning in the third quarter of 2003.

Corporate Client Group

The following table sets forth the revenue from the Corporate Client Group as reported and calculated in accordance with U.S. Generally Accepted Accounting Principles ("GAAP") and as would be reported on a non-GAAP basis without giving affect to SAB 101 ("pre-SAB 101"). Nasdaq believes that the presentation of pre-SAB 101 revenue, as it related to LAS and Initial Listing Fees, is a good indicator of current Corporate Client Group activity because pre-SAB 101 information excludes the effects of recognizing revenue related to Initial Listing Fees and LAS Fees over the six and four year periods, respectively.

	Three months ended September 30,			
	2003		2002	
	Revenue		Revenue	
	As Reported Under SAB 101	Pre-SAB 101	As Reported Under SAB 101	Pre-SAB 101
(in millions)				
Annual Renewal Fees	\$ 23.6	\$ 23.6	\$ 25.9	\$ 25.9
Listing Additional Shares ("LAS") Fees	9.2	7.7	9.4	4.3
Initial Listing Fees	8.0	3.8	8.4	4.9
Other Corporate Client Group Revenue	0.4	0.4	0.6	0.6
Total Corporate Client Group Revenue	\$ 41.2	\$ 35.5	\$ 44.3	\$ 35.7

For the three months ended September 30, 2003, Corporate Client Group revenue was \$41.2 million compared with \$44.3 million for the three months ended September 30, 2002, a decrease of \$3.1 million or 7.0%.

Corporate Client Group revenues are primarily derived from fees for Annual Renewals, LAS and Initial Listings for companies listed on The Nasdaq Stock Market. Fees are generally calculated based upon total shares outstanding for the issuing company. These fees are initially deferred and amortized over the estimated periods for which the services are provided. Revenues from Initial Listing Fees and LAS Fees are amortized over six and four years, respectively, and Annual Renewal Fees are amortized on a pro-rata basis over the calendar year. The difference between the as reported revenue and the pre-SAB 101 basis revenue is due to the amortization of fees in accordance with SAB 101 (See Notes 3 and 4, Change in Accounting Principle and Deferred Revenue, for further discussion).

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Annual Renewal Fees totaled \$23.6 million on both an as reported and pre-SAB 101 basis for the three months ended September 30, 2003 compared with \$25.9 million on both an as reported and pre-SAB 101 basis for the three months ended September 30, 2002, a decrease of \$2.3 million or 8.9%. This decrease was primarily due to a decrease in the number of companies listed on The Nasdaq Stock Market from 4,109 on January 1, 2002 to 3,659 on January 1, 2003, the date on which companies are billed their annual fees.

LAS Fees totaled \$9.2 million for the three months ended September 30, 2003 compared with \$9.4 million for the three months ended September 30, 2002, a decrease of \$0.2 million or 2.1% on an as reported basis. On a pre-SAB 101 basis, LAS fees totaled \$7.7 million for the three months ended September 30, 2003 compared with \$4.3 million for the three months ended September 30, 2002, an increase of \$3.4 million or 79.1%. This increase was primarily due to a stronger economic environment which resulted in higher activity for secondary offerings as well as other additional share activity.

Initial Listing Fees totaled \$8.0 million for the three months ended September 30, 2003 compared with \$8.4 million for the three months ended September 30, 2002, a decrease of \$0.4 million or 4.8% on an as reported basis. On pre-SAB 101 basis, Initial Listing Fees totaled \$3.8 million for the three months ended September 30, 2003 compared with \$4.9 million for the three months ended September 30, 2002, a decrease of \$1.1 million or 22.4%. Due to the events of September 11, 2001, a temporary suspension of listing requirements was instituted. This temporary suspension was lifted on January 3, 2002. As a result, a higher number of companies transferred down from one tier of The Nasdaq Stock Market to the other at the end of their respective time periods for review of non-compliance which occurred during the second and third quarters of 2002. These companies were charged an initial fee upon entering the new tier. Partially offsetting this decrease was an increase in the number of IPOs from six for the three months ended September 30, 2002 to 14 for the three months ended September 30, 2003.

Other Revenue

Other revenue totaled \$13.2 million for the three months ended September 30, 2003 compared with \$11.6 million for the three months ended September 30, 2002, an increase of \$1.6 million or 13.8%. Other revenue primarily includes trademark and licensing revenues related to the QQQ and other financial products linked to Nasdaq indices issued in the U.S. and abroad. The QQQ is the trading symbol for the shares of the Nasdaq-100 Index Tracking Stock. QQQ represents units of beneficial interest in a unit investment trust, the Nasdaq-100 Trust, that holds shares of the top 100 U.S. and international non-financial stocks listed on The Nasdaq Stock Market that comprise the Nasdaq-100 Index®. Also, for the three months ended September 30, 2003 Nasdaq recorded the receipt of a business interruption insurance claim related to the events of September 11, 2001 of \$1.9 million, which primarily represents the increase as compared to September 30, 2002.

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Direct Expenses

	Three months ended September 30,	
	2003	2002
(in millions)		
Compensation and benefits	\$ 38.3	\$ 51.3
Marketing and advertising	3.8	6.1
Depreciation and amortization	24.3	25.1
Professional and contract services	9.4	17.3
Computer operations and data communications	34.8	35.3
Provision for bad debts	—	2.5
Travel, meetings and training	2.1	2.7
Occupancy	8.2	7.5
Publications, supplies and postage	1.5	2.7
Other	3.3	1.8
Total direct expenses	\$ 125.7	\$ 152.3

For the three months ended September 30, 2003, direct expenses were \$125.7 million compared with \$152.3 million for the three months ended September 30, 2002, a decrease of \$26.6 million or 17.5%.

Compensation and benefits expense was \$38.3 million for the three months ended September 30, 2003 compared with \$51.3 million for the three months ended September 30, 2002, a decrease of \$13.0 million or 25.3%. This decrease was primarily due to a decline in the number of employees from 1,388 on September 30, 2002 to 1,029 on September 30, 2003 due to Nasdaq's reduction in force. See Note 2, Significant Transactions, for further discussion.

Marketing and advertising expense was \$3.8 million for the three months ended September 30, 2003 compared with \$6.1 million for the three months ended September 30, 2002, a decrease of \$2.3 million or 37.7%. This decrease was primarily due to a decline in direct marketing expenses related to the roll-out of SuperMontage and a decline in advertising expenses related to Nasdaq's "Listed on Nasdaq" marketing campaign.

Professional and contract services expense was \$9.4 million for the three months ended September 30, 2003 compared with \$17.3 million for the three months ended September 30, 2002, a decrease of \$7.9 million or 45.7% primarily due to less reliance on outside contractors and a decline in expenses associated with Nasdaq's global expansion strategy.

Provision for bad debts was \$2.5 million for the three months ended September 30, 2002. No provision for bad debts was recorded for the three months ended September 30, 2003 due to a decrease in past due account balances.

Travel, meetings and training expense was \$2.1 million for the three months ended September 30, 2003 compared with \$2.7 million for the three months ended September 30, 2002, a decrease of \$0.6 million or 22.2%. Publications, supplies and postage expense was \$1.5 million for the three months ended September 30, 2003 compared with \$2.7 million for the three months ended September 30, 2002, a decrease of \$1.2 million or 44.4%. These decreases were primarily due to lower overall spending as a result of Nasdaq's cost reduction plan.

The remaining direct expenses totaled \$70.6 million for the three months ended September 30, 2003 compared with \$69.7 million for the three months ended September 30, 2002, an increase of \$0.9 million or 1.3%.

Elimination of Non-Core Product Lines, Initiatives and Severance

Strategic Review

During the second quarter of 2003, Nasdaq announced a plan designed to position Nasdaq for improved profitability and growth, which included the elimination of non-core products and initiatives. Additional charges related to the strategic review are expected in future periods. In the second quarter of 2003, a pre-tax charge to earnings of \$59.8 million was recorded. The net impact to Nasdaq was a pre-tax charge of \$57.8 million. The difference represented costs absorbed by minority shareholders of Nasdaq Europe. In the third quarter of 2003, an additional pre-tax charge to earnings of \$49.3 million was recorded relating to the continued elimination of the non-core products and initiatives, resulting in a total charge of \$109.1 million as of September 30, 2003. The charges were primarily recorded to Other accrued liabilities, Goodwill, Other intangible assets, Property and equipment and Accrued personnel costs on the Condensed Consolidated Balance Sheets.

Under the strategic review Nasdaq decided to support the close of the market operated by Nasdaq Europe, a pan-European stock market located in Belgium in which Nasdaq owned a 63.0% interest as of September 30, 2003. At an Extraordinary General Meeting held on June 26, 2003, the shareholders of Nasdaq Europe voted to discontinue operations of the market. Since then, an orderly wind-down of market operations has been taking place pursuant to a Transition Plan approved by the Belgian Banking and Finance Commission. The orderly wind-down of Nasdaq Europe is approaching completion. Also, as part of Nasdaq's strategic review, during the third quarter of 2003, Nasdaq Europe supported the decision of the shareholders of Nasdaq Deutschland, a German exchange in which Nasdaq Europe had a 50.0% interest, to suspend that company's trading operations effective August 29, 2003. Nasdaq Europe transferred all of its shares in Nasdaq Deutschland to one of the other shareholders, BWB Holding AG, as of August 29, 2003. The charge related to the orderly wind-down and liquidation of market operations in Belgium and Germany was approximately \$26.1 million in the third quarter of 2003 and the charge related to the wind-down and liquidation of market operations in Belgium was \$14.1 million in the second quarter of 2003 (excluding the minority interest benefit of \$2.0 million) totaling \$40.2 million as of September 30, 2003. The \$40.2 million charge includes the \$25.4 million write-down to fair value of certain technology platforms held for sale owned by Nasdaq Europe, the impairment of goodwill of \$8.1 million (Nasdaq Europe and Nasdaq Deutschland), severance costs of \$1.8 million, contract terminations of \$2.1 million and other costs of \$2.8 million.

Other non-core product lines and initiatives included in the strategic review include:

- Nasdaq Tools—Nasdaq Tools is an order management system that runs on the Nasdaq Application Programming Interface using the Nasdaq Workstation II and will be wound-down during the remainder of 2003.
- NQLX—NQLX was a joint venture with LIFFE to create a market for single stock futures and other futures products. On July 24, 2003, Nasdaq redeemed its interest in the NQLX joint venture and transferred its ownership interest to NQLX. LIFFE assumed financial and management responsibility for NQLX. This change did not have any impact on the operation of NQLX, but usage of the Nasdaq brand by the company ceased.
- BBX—BBX was a proposed platform for companies not eligible for the Nasdaq SmallCap Market to raise equity capital and increase the visibility of their stock. The OTCBB will continue its existing operations.
- Liquidity Tracker—Liquidity Tracker was an automated order routing system designed to allow traders to direct orders to specific market makers based on recent trading activity. Liquidity Tracker ceased operations as of June 30, 2003.
- IndigoMarkets—was a joint venture with SSI to develop international trading platforms. On September 30, 2003, Nasdaq Global sold its interest in the joint venture to SSI.

The charge related to the elimination of the above other non-core products and initiatives was approximately \$1.3 million in the third quarter of 2003 and \$25.0 million in the second quarter of 2003, resulting in a total charge of \$26.3 million as of September 30, 2003. The \$1.3 million charge in the third quarter of 2003 primarily represented impairment of certain intangibles. Included in the \$25.0 million charge recorded in the second quarter of 2003 was the reduction of Nasdaq's investment in NQLX of \$6.3 million due to the redemption of Nasdaq's interest in the NQLX joint venture, the impairment of goodwill of \$4.1 million associated with Nasdaq Tools, impairment of various capitalized software and fixed assets of \$7.8 million, impairment of intangible assets of \$1.9 million and other costs of \$4.9 million.

In addition, the charges recorded in the third and second quarters of 2003 included severance costs of \$8.7 million and \$20.7 million, respectively, and the loss on early extinguishment of long-term debt of \$13.2 million recorded in the third quarter of 2003. The severance costs included \$6.9 million and \$4.3 million for the third and second quarters of 2003, respectively, related to the reductions in force of approximately 100 employees in the third quarter of 2003 and 110 employees in the second quarter of 2003. The remaining \$1.8 million and \$16.4 million of severance costs for the third and second quarters, respectively, relate to the fulfillment of employment contracts and obligations associated with the retirement and departure of certain members of senior management. Total headcount was 1,029 as of the end of September 2003 versus 1,155 as of the end of June 2003. The extinguishment of debt costs relate to the redemption of \$150.0 million in aggregate principal amount of Nasdaq's Senior Notes due in 2007. In conjunction with its strategic review, Nasdaq reassessed its capital needs and determined that it no longer needed the liquidity of the Senior Notes. See Long-term debt below for further discussion.

Nasdaq currently expects to continue to recognize additional expenses throughout the balance of the year in the range of \$20.0 million to \$25.0 million related to the wind-down of these eliminated products and initiatives, excluding any reduction in force charges. Nasdaq continues to review its structure and may incur additional expenses in its Condensed Consolidated Statements of Income above the \$20.0 million to \$25.0 million range.

Support Costs from Related Parties, net

Support costs from related parties, net were \$15.4 million for the three months ended September 30, 2003 compared with \$21.1 million for the three months ended September 30, 2002, a decrease of \$5.7 million or 27.0%. This decrease reflects a reduction in surveillance and other regulatory charges from the NASD Regulation, Inc. ("NASDR") as well as continued progress in separating from the NASD and the resulting internalization of technology and certain other support functions. Surveillance and other regulatory charges from NASDR were \$15.8 million for the three months ended September 30, 2003 compared with \$21.3 million for the three months ended September 30, 2002, a decrease of \$5.5 million or 25.8%. Support costs from the NASD were \$0.2 million for the three months ended September 30, 2003 compared with \$1.3 million for the three months ended September 30, 2002, a decrease of \$1.1 million or 84.6%. In addition, partially offsetting the above is the amount of Nasdaq costs charged to the Amex of \$0.6 million for the three months ended September 30, 2003 compared with \$1.5 million for the three months ended September 30, 2002, a decrease of \$0.9 million or 60.0%. This decrease was primarily due to the reduction in Amex's reliance on Nasdaq for support.

Income Taxes

Nasdaq's income tax benefit was \$8.0 million for the three months ended September 30, 2003 compared to an income tax provision of \$12.2 million for the three months ended September 30, 2002. The overall effective tax rate for the three months ended September 30, 2003 and September 30, 2002

was 17.4% and 49.0%, respectively. The change in Nasdaq's effective tax rate was primarily due to an increase in foreign losses for which no tax benefit is available.

The effective tax rate may vary from quarter to quarter depending on, among other factors, the geographic and business mix of earnings and losses. These same and other factors, including history of pre-tax earnings and losses, are taken into account in assessing the ability to realize deferred tax assets.

For the Nine Months Ended September 30, 2003 and September 30, 2002

Financial Overview. The following table sets forth an overview of Nasdaq's financial results:

	Nine months ended September 30,	
	2003	2002
(in millions, except per share amounts)		
Total revenues	\$ 462.1	\$ 615.3
Total direct expenses	416.7	464.1
Total expenses	569.2	535.8
Net (loss) income before taxes	(103.8)	83.5
Net (loss) income	(84.5)	42.8
Net (loss) income applicable to common stockholders	(90.2)	35.5
Basic (loss) earnings per common share	(1.15)	0.42
Diluted (loss) earnings per common share	(1.15)	0.40

Revenues

The following table sets forth Total Revenues:

	Nine months ended September 30,	
	2003	2002
(in millions)		
Transaction Services	\$ 182.7	\$ 301.9
Market Information Services	116.4	152.9
Corporate Client Group	126.5	132.1
Other	36.5	28.4
Total Revenues	\$ 462.1	\$ 615.3

Transaction Services

The following table sets forth revenues from Transaction Services:

	Nine months ended September 30,	
	2003	2002
(in millions)		
Access Services	\$ 83.1	\$ 109.4
Execution Services:		
Execution Revenue	147.3	190.5
Liquidity Rebate	(88.0)	(64.4)
	<hr/>	<hr/>
Execution Services Revenue, net of Liquidity Rebate	59.3	126.1
Trade Reporting	38.0	61.5
Other Transaction Services Revenue	2.3	4.9
	<hr/>	<hr/>
Total Transaction Services Revenue	\$ 182.7	\$ 301.9
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For the nine months ended September 30, 2003, Transaction Services revenue was \$182.7 million compared with \$301.9 million for the nine months ended September 30, 2002, a decrease of \$119.2 million or 39.5%.

Access Services revenue was \$83.1 million for the nine months ended September 30, 2003 compared with \$109.4 million for the nine months ended September 30, 2002, a decrease of \$26.3 million or 24.0%. This decrease was primarily due to the reduction in the number of trader log-ons to Nasdaq systems reflecting market participant consolidations. Access Services revenue is derived from Nasdaq Workstation II and Application Programming Interface, CTCI, Nasdaq Tools and Weblink. As discussed in Note 2, Significant Transactions, Nasdaq will wind-down Nasdaq Tools during the remainder of 2003.

The Nasdaq Workstation II and the Application Programming Interface are the primary means by which traders access Nasdaq's quote and trade execution facilities, providing access to quotation services, automated trade executions, real-time reporting, trade negotiations and clearing. These access devices provided revenues of \$68.3 million for the nine months ended September 30, 2003 compared with \$92.6 million for the nine months ended September 30, 2002, a decrease of \$24.3 million or 26.2%. This decrease was primarily due to the reduction in the number of trader log-ons reflecting market participant consolidations. Nasdaq Workstation II and Application Programming Interface fees are charged monthly based upon the number of authorized log-on identifications.

Nasdaq provides CTCI for users to report trades, enter orders into SuperMontage and receive execution messages. CTCI links market participants' automated systems to Nasdaq. CTCI revenue was \$12.0 million for the nine months ended September 30, 2003 compared with \$12.6 million for the nine months ended September 30, 2002, a decrease of \$0.6 million or 4.8%. CTCI revenue increased \$0.8 million in the first quarter of 2003 related to the testing and implementation of SuperMontage, however, the increase was more than offset in the second and third quarters of 2003 by a price decrease effective on April 1, 2003. Users are charged a monthly fee based upon the bandwidth of the line.

Also included in Access Services are Nasdaq Tools and Weblink, which each totaled \$1.4 million for the nine months ended September 30, 2003 and \$3.1 million and \$1.1 million, respectively, for the nine months ended September 30, 2002. Prior to April 1, 2002, Weblink revenue was disclosed as Other Transaction Services revenue and prior to July 31, 2002, revenue from Nasdaq Tools was disclosed as Other revenue. Prior period amounts have been reclassified to conform to the current period presentation of revenue for Access Services, Other Transaction Services and Other revenue.

Execution Revenue was \$147.3 million for the nine months ended September 30, 2003 compared with \$190.5 million for the nine months ended September 30, 2002, a decrease of \$43.2 million or 22.7%. The Liquidity Rebate, in which Nasdaq credits a portion of the per share execution charge through a liquidity rebate to the market participant that provides the liquidity, was \$88.0 million for the nine months ended September 30, 2003 compared with \$64.4 million for the nine months ended September 30, 2002, an increase of \$23.6 million or 36.6%. Execution Revenue, net of the Liquidity Rebate totaled \$59.3 million for the nine months ended September 30, 2003 compared with \$126.1 million for the nine months ended September 30, 2002, a decrease of \$66.8 million or 53.0%.

The decrease in Execution Revenue was primarily due to a decrease in overall share volume and market share in the nine months ended September 30, 2003 compared with the nine months ended September 30, 2002 resulting from increased competition and shifts in market composition and the elimination of a quote update fee. Average daily share volume and the percentage of share volume executed in Nasdaq's systems were 1.66 billion and 17.6%, respectively, in the nine months ended September 30, 2003 compared with 1.79 billion and 27.9%, respectively in the nine months ended September 30, 2002. Nasdaq eliminated a quote update fee that was charged to market participants for updating quotes on The Nasdaq National Market and The Nasdaq SmallCap Market on February 1, 2003. The quote update fee was \$0.5 million for the nine months ended September 30, 2003 compared with \$14.5 million for the nine months ended September 30, 2002, a decrease of \$14.0 million. These decreases in Execution Revenue were partially offset by an increase, during the fourth quarter of 2002, in the per share execution charge. However, the increase in the per share execution charge had no effect on Execution Services Revenue, net of the Liquidity Rebate since the amount shared through the Liquidity Rebate (see discussion below) also increased by the same amount.

The increase in the Liquidity Rebate was due to an increase in the amount rebated during the fourth quarter of 2002. However, as discussed above, this increase did not effect Execution Services Revenue, net of the Liquidity Rebate as this increase was offset by the increase in the per share execution charge. Execution Services Revenue is primarily derived from SuperMontage, Advanced Computer Execution Systems ("ACES") and Computer Assisted Execution System ("CAES").

In the fourth quarter of 2002, Nasdaq fully implemented SuperMontage, a new trading system designed to refine how market participants can access, process, display and integrate orders and quotes in The Nasdaq Stock Market. In the first quarter of 2003, Nasdaq enhanced SuperMontage's functionality to allow non-market maker firms the ability to post non-attributable bids and offers on the SuperMontage platform, thereby improving SuperMontage liquidity and expanding its user base. In the third quarter of 2003, Nasdaq further enhanced SuperMontage's functionality to include FIX. FIX is a language that defines electronic messages for communicating securities transactions between two parties. It is a standard format used today by a majority of U.S. firms in the equity securities business. FIX defines only the format of the message and is not a software application in its own right. SuperMontage replaced SuperSoes, SelectNet and SOES. (See discussion of SuperSoes, SelectNet and SOES below.) SuperMontage revenue, net of the Liquidity Rebate of \$88.0 million was \$55.9 million for the nine months September 30, 2003 and the quote update fee that was charged to market participants for updating quotes on The Nasdaq National Market and The Nasdaq SmallCap Market was \$0.5 million for the nine months ended September 30, 2003. SuperMontage fees are charged on a per share basis.

SuperSoes was Nasdaq's primary execution system prior to the implementation of SuperMontage. SuperSoes combined features of the previously existing SelectNet and SOES execution systems and was only available for securities listed on The Nasdaq National Market tier of The Nasdaq Stock Market. SuperSoes revenue, net of the Liquidity Rebate of \$64.4, was \$79.8 million for the nine months ended September 30, 2002 and the quote update fee was \$14.5 million for the nine months ended September 30, 2002. SuperSoes fees were charged on a per share basis. Nasdaq retired the SuperSoes system in December 2002.

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The SelectNet execution system provided revenue of \$25.7 million for the nine months ended September 30, 2002. Prior to the implementation of SuperMontage, SelectNet functioned as an order delivery service to facilitate trading of Nasdaq-listed securities by linking market participants. During 2002, SelectNet served primarily as a means for participants to reach ECN quotes on The Nasdaq National Market and The Nasdaq SmallCap Market and was also a tool for market participants seeking to negotiate trades with specific market makers, or to broadcast such an order to all market makers. SelectNet fees were charged on a per transaction basis. Nasdaq retired the SelectNet system in December 2002.

Revenue from SOES, which was used during 2002 solely for transactions on The Nasdaq SmallCap Market, accounted for less than 1% of revenue for the nine months ended September 30, 2002. Nasdaq retired the SOES system in December 2002.

Also included in Execution Services revenue is revenue derived from ACES, CAES and Primex. Aggregate revenues from ACES, CAES and Primex totaled \$2.9 million for the nine months ended September 30, 2003 compared with \$6.1 million for the nine months ended September 30, 2002, a decrease of \$3.2 million or 52.5%. CAES is an automatic and order delivery execution system for the NYSE and Amex-listed securities. ACES is an order routing tool that routes orders directly between market participants. Prior to April 1, 2002, ACES and CAES revenue was disclosed as Other Transaction Services revenue. As such, prior period amounts have been reclassified to conform to the current period presentation of ACES and CAES revenue. Primex is an electronic, auction-trading platform.

Trade Reporting revenue totaled \$38.0 million for the nine months ended September 30, 2003 compared with \$61.5 million for the nine months ended September 30, 2002, a decrease of \$23.5 million or 38.2%. This decrease was primarily due to a decline in overall share volume, the reporting of trades to regional exchanges and the NASD's ADF and price reductions. Price reductions were initiated in April 2003 for securities listed on The Nasdaq National Market and The Nasdaq SmallCap Market for locked-in transaction reports. On July 1, 2003, Nasdaq eliminated the fee for locked-in transaction reports for securities listed on The Nasdaq National Market and The Nasdaq SmallCap Market. Price reductions were also initiated in April 2003 and June 2003 for transaction reports initiated through SuperMontage. Revenue from Trade Reporting is derived from ACT, an automated service that provides the post-execution steps of price reporting, volume comparison, clearing of pre-negotiated trades and risk management services. ACT fees are primarily charged on a per transaction basis.

Market Information Services

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

	Nine months ended September 30,	
	2003	2002
(in millions)		
Level 1 Service	\$ 93.9	\$ 108.2
Nasdaq Quotation Dissemination Service ("NQDS")	28.5	28.7
ViewSuite	7.2	—
Nasdaq InterMarket:		
Tape Fee Revenue	21.2	48.7
Tape Fee Revenue Sharing	(10.4)	(19.0)
Tape Fee Revenue, net of Revenue Sharing	10.8	29.7
Unlisted Trading Privileges ("UTP")	(33.2)	(13.0)
Nasdaq Data Revenue Sharing	—	(9.0)
Other Market Information Services Revenue	9.2	8.3
Total Market Information Services Revenue	\$ 116.4	\$ 152.9

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For the nine months ended September 30, 2003, Market Information Services revenue was \$116.4 million compared with \$152.9 million for the nine months ended September 30, 2002, a decrease of \$36.5 million or 23.9%.

Nasdaq's Level 1 Service provides last trade and current inside quote information for securities listed on The Nasdaq Stock Market. Level 1 revenue totaled \$93.9 million for the nine months ended September 30, 2003 compared with \$108.2 million for the nine months ended September 30, 2002, a decrease of \$14.3 million or 13.2%. This decrease was primarily due to costs saving initiatives among Nasdaq's market participants and market participant consolidations

causing a decrease in professional Level 1 subscriptions. Fees for professional users are based on monthly subscriptions to terminals or access lines. Also contributing to the decline was a reduction in non-professional subscriptions due to reduced consumer interest in the equity markets in the six months ended June 30, 2003 compared with the six months ended June 30, 2002. However, partially offsetting this decrease was an increase in non-professional subscriptions resulting from increased consumer interest in the equity markets in the third quarter of 2003 compared to the third quarter of 2002. Providers of Level 1 data to non-professional users have the option to offer this information through either a flat monthly rate or a per query charge. Prior to April 1, 2002, certain Level 1 subscriptions were included as part of Other Market Information Services Revenue. Prior period amounts have been reclassified to conform to the current period presentation of revenue for Level 1 and Other Market Information Services Revenue.

NQDS provides subscribers with the best quote from each Nasdaq market participant. NQDS revenues totaled \$28.5 million for the nine months ended September 30, 2003 compared with \$28.7 million for the nine months ended September 30, 2002, a decrease of \$0.2 million or 0.7%. This decrease was primarily due to a decrease in professional subscriptions resulting from cost saving initiatives among Nasdaq's market participants and market participant consolidations. NQDS revenue is derived from monthly subscriptions.

In the fourth quarter of 2002, Nasdaq launched three new proprietary data products in conjunction with the launch of SuperMontage. These new ViewSuite products offer a wide array of quotation information to market data vendors and broker-dealer distributors. DepthView shows the aggregate size, by price level, of all Nasdaq market participants' quotations/orders that are in the top five price levels in SuperMontage. PowerView bundles NQDS and DepthView. TotalView offers the PowerView services and shows all Nasdaq market participants' quotations/orders that are in the top five price levels in SuperMontage, in addition to the aggregate size of all unattributed (i.e., providing pre-trade anonymity) quotes/orders in each of the top five price levels. Nasdaq began charging for its ViewSuite data products in the first quarter of 2003. ViewSuite revenue was \$7.2 million for the nine months ended September 30, 2003.

Each ViewSuite product is offered through distributors to professional subscribers for a monthly fee per terminal and DepthView and PowerView are offered to non-professional subscribers for a lower monthly fee per terminal. In addition, Nasdaq charges the distributor a monthly fee for each ViewSuite product.

In October of 2003, Nasdaq consolidated DepthView and PowerView into TotalView and reduced its price for professional and non-professional users.

Nasdaq InterMarket Tape Fee revenues are derived from data revenue generated by the CQ/CTA Plans. The information collected under the CQ/CTA Plans is sold to data vendors, who in turn sell it to the public. Nasdaq's InterMarket tape revenue is directly related to both its percentage of trades in exchange-listed securities that are reported through the CQ/CTA Plans and the size of the revenue sharing pool. Nasdaq InterMarket Tape Revenue totaled \$21.2 million for the nine months ended September 30, 2003 compared with \$48.7 million for the nine months ended September 30, 2002, a decrease of \$27.5 million or 56.5%. This decrease was primarily due to Island reporting certain additional trading activity to the Cincinnati Stock Exchange beginning in the fourth quarter of 2002.

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Part of Nasdaq's CQ/CTA Tape Fee revenue is shared with market participants. A previous minimum threshold requirement for revenue sharing was eliminated as of July 1, 2002. Nasdaq InterMarket Tape Fee revenue sharing was \$10.4 million for the nine months ended September 30, 2003 compared with \$19.0 million for the nine months ended September 30, 2002, a decrease of \$8.6 million or 45.3%. This decrease was primarily due to Island reporting trade activity to the Cincinnati Stock Exchange, which reduced the amount of revenue Nasdaq was obligated to share with Island. Partially offsetting the decrease in Tape Fee Revenues, net of Revenue Sharing, Nasdaq receives licensing fees from regional exchanges that report trades in the QQQ trades, an exchange traded fund, which are reported as Other revenue in the Condensed Consolidated Statements of Income. See discussion of Other revenue for further information regarding the QQQ.

Nasdaq shares Tape Fee revenue (i.e., revenue from the sale of tape data) for Nasdaq-listed securities through the UTP Plan. Tape Fees are shared with regional exchanges that are members of the UTP Plan and that trade Nasdaq-listed securities. UTP Plan participants are paid based on the total shares and trades that they execute as a percentage of all shares and trades executed in securities listed on The Nasdaq Stock Market. Nasdaq Tape Fee revenue sharing with UTP Plan participants totaled \$33.2 million for the nine months ended September 30, 2003 compared with \$13.0 million for the nine months ended September 30, 2002, an increase of \$20.2 million. This decrease was primarily due to the trade reporting activity from the Cincinnati Stock Exchange, which became an active UTP Plan participant at the end of the first quarter of 2002, trade reporting activity from the ADF, which became an active UTP Plan participant in the first quarter of 2003, trade reporting activity from the Pacific Exchange, which became an active UTP Plan participant in the second quarter of 2003 and additional trade reporting activity from The Cincinnati Stock Exchange due to the BRUT ECN reporting locked-in trades to The Cincinnati Stock Exchange beginning in the third quarter of 2003.

Nasdaq also shared Tape Fee revenue, through the Nasdaq Data Revenue Sharing program, with its market participants in a pilot program based on their share of trades and volume reported to Nasdaq. This revenue sharing plan was introduced in the first quarter of 2002. During the nine months ended September 30, 2002, Nasdaq shared \$9.0 million in Tape Fee revenue with its market participants. The data revenue sharing program was part of a larger strategy to compete with UTP exchanges and provide proper incentive for Nasdaq market participants to continue to fully utilize Nasdaq's Transaction Services. Effective June 1, 2002, the SEC abrogated certain market participant Tape Fee sharing pilot programs, which resulted in an elimination of the Nasdaq member revenue sharing program for data covered under the UTP Plan. See Note 2, Significant Transactions, for further discussion.

Corporate Client Group

The following table sets forth the revenue from the Corporate Client Group as reported and calculated in accordance with U.S. GAAP and as would be reported on a non-GAAP basis without giving affect to SAB 101 ("pre-SAB 101"). Nasdaq believes that the presentation of pre-SAB 101 revenue, as it relates to LAS and Initial Listing Fees, is a good indicator of current Corporate Client

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Group activity because pre-SAB 101 information excludes the effects of recognizing revenue related to Initial Listing Fees and LAS Fees over the six and four year periods, respectively.

Nine months ended September 30,

2003

2002

	Revenue		Revenue	
	As Reported Under SAB 101	Pre-SAB 101	As Reported Under SAB 101	Pre-SAB 101
(in millions)				
Annual Renewal Fees	\$ 71.8	\$ 71.8	\$ 77.4	\$ 77.4
Listing Additional Shares ("LAS") Fees	27.8	19.9	28.2	24.9
Initial Listing Fees	24.3	10.6	25.2	15.9
Other Corporate Client Group Revenue	2.6	2.6	1.3	1.3
Total Corporate Client Group Revenue	\$ 126.5	\$ 104.9	\$ 132.1	\$ 119.5

For the nine months ended September 30, 2003, Corporate Client Group revenue was \$126.5 million compared with \$132.1 million for the nine months ended September 30, 2002, a decrease of \$5.6 million or 4.2%.

Corporate Client Group revenues are primarily derived from fees for Annual Renewals, LAS and Initial Listings for companies listed on The Nasdaq Stock Market. Fees are generally calculated based upon total shares outstanding for the issuing company. These fees are initially deferred and amortized over the estimated periods for which the services are provided. Revenues from Initial Listing Fees and LAS Fees are amortized over six and four years, respectively, and Annual Renewal Fees are amortized on a pro-rata basis over the calendar year. The difference between the as reported revenue and the pre-SAB 101 basis revenue is due to the amortization of fees in accordance with SAB 101 (See Notes 3 and 4, Change in Accounting Principle and Deferred Revenue, for further discussion).

Annual Renewal Fees totaled \$71.8 million on both an as reported and pre-SAB 101 basis for the nine months ended September 30, 2003 compared with \$77.4 million on both an as reported and pre-SAB 101 basis for the nine months ended September 30, 2002, a decrease of \$5.6 million or 7.2%. This decrease was primarily due to a decrease in the number of companies listed on The Nasdaq Stock Market from 4,109 on January 1, 2002 to 3,659 on January 1, 2003, the date on which companies are billed their annual fees.

LAS Fees totaled \$27.8 million for the nine months ended September 30, 2003 compared with \$28.2 million for the nine months ended September 30, 2002, a decrease of \$0.4 million or 1.4% on an as reported basis. On a pre-SAB 101 basis, LAS fees totaled \$19.9 million for the nine months ended September 30, 2003 compared with \$24.9 million for the nine months ended September 30, 2002, a decrease of \$5.0 million or 20.1%. This decrease was primarily due to an overall weaker economic environment in the six months ended June 30, 2003 compared with the six months ended June 30, 2002, which resulted in lower activity for secondary offerings as well as other additional share activity. However, partially offsetting the decrease was an increase in secondary offerings activity in the third quarter of 2003 compared to the third quarter of 2002.

Initial Listing Fees totaled \$24.3 million for the nine months ended September 30, 2003 compared with \$25.2 million for the nine months ended September 30, 2002, a decrease of \$0.9 million or 3.6% on an as reported basis. On pre-SAB 101 basis, Initial Listing Fees totaled \$10.6 million for the nine months ended September 30, 2003 compared with \$15.9 million for the nine months ended September 30, 2002, a decrease of \$5.3 million or 33.3%. Due to the events of September 11, 2001, a temporary suspension of listing requirements was instituted. This temporary suspension was lifted on January 3, 2002. As a result, a higher number of companies transferred down from one tier of The Nasdaq Stock Market to the other at the end of their respective time periods for review of

non-compliance which occurred during the second and third quarters of 2002. These companies were charged an initial fee upon entering the new tier. Also contributing to the decrease was a reduction in the number of IPOs from 35 for the nine months ended September 30, 2002 to 19 for the nine months ended September 30, 2003.

Other Revenue

Other revenue totaled \$36.5 million for the nine months ended September 30, 2003 compared with \$28.4 million for the nine months ended September 30, 2002, an increase of \$8.1 million or 28.5%. Other revenue primarily includes trademark and licensing revenues related to the QQQ and other financial products linked to Nasdaq indices issued in the U.S. and abroad. The QQQ is the trading symbol for the shares of the Nasdaq-100 Index Tracking Stock. QQQ represents units of beneficial interest in a unit investment trust, the Nasdaq-100 Trust, that holds shares of the top 100 U.S. and international non-financial stocks listed on The Nasdaq Stock Market that comprise the Nasdaq-100 Index. The increase in Other revenue was primarily attributable to increased licensing revenue related to Nasdaq-100 linked products and the exchange-traded fund QQQ. Also contributing to the increase is the receipt of a business interruption insurance claim, during the three months ended September 30, 2003, related to the events of September 11, 2001 of \$1.9 million.

Direct Expenses

	Nine months ended September 30,	
	2003	2002
(in millions)		
Compensation and benefits	\$ 136.1	\$ 142.4
Marketing and advertising	14.6	14.2
Depreciation and amortization	78.2	75.2
Professional and contract services	35.6	49.3
Computer operations and data communications	99.8	113.2
Provision for bad debts	1.6	9.0
Travel, meetings and training	7.1	9.4

Occupancy	24.9	24.4
Publications, supplies and postage	5.3	7.8
Other	13.5	19.2
Total direct expenses	\$ 416.7	\$ 464.1

For the nine months ended September 30, 2003, direct expenses were \$416.7 million compared with \$464.1 million for the nine months ended September 30, 2002, a decrease of \$47.4 million or 10.2%.

Compensation and benefits expense was \$136.1 million for the nine months ended September 30, 2003 compared with \$142.4 million for the nine months ended September 30, 2002, a decrease of \$6.3 million or 4.4%. This decrease was primarily due to a decline in the number of employees from 1,388 on September 30, 2002 to 1,029 on September 30, 2003 due to Nasdaq's reduction in force (See Note 2, Significant Transaction, for further discussion), partially offset by an increase in employee benefit obligations and the consolidation of Nasdaq Deutschland beginning in the first quarter of 2003.

Depreciation and amortization expense was \$78.2 million for the nine months ended September 30, 2003 compared with \$75.2 million for the nine months ended September 30, 2002, an increase \$3.0 million or 4.0%. This decrease was primarily due to accelerated depreciation charges on certain technology infrastructure assets of \$8.3 million in the nine months ended September 30, 2003,

as a result of Nasdaq's decision to migrate to a less expensive open system environment as part of Nasdaq's on-going cost reduction plan partially offset by lower depreciation and amortization expense due to the elimination of non-core products lines and initiatives. See Note 2, Significant Transactions, for further discussion of the eliminated non-core product lines and initiatives.

Professional and contract services expense was \$35.6 million for the nine months ended September 30, 2003 compared with \$49.3 million for the nine months ended September 30, 2002, a decrease of \$13.7 million or 27.8%. This decrease was primarily due to a decrease in expenses associated with Nasdaq's global expansion strategy and less reliance on outside contractors.

Computer operations and data communications expense was \$99.8 million for the nine months ended September 30, 2003 compared with \$113.2 million for the nine months ended September 30, 2002, a decrease of \$13.4 million or 11.8%. This decrease was primarily due to a renegotiation of Nasdaq's contract with MCI, formerly known as WorldCom Inc., that occurred in 2002. Also contributing to the decrease was lower costs associated with providing computer links to customers due to lower demand for such services as noted in the discussion of "Transaction Services—Access Services Revenue" and a reduction in maintenance costs due to Nasdaq's cost reduction plan.

Provision for bad debts was \$1.6 million for the nine months ended September 30, 2003 compared with \$9.0 million for the nine months ended September 2002, a decrease of \$7.4 million or 82.2%. This decrease was primarily due to a decrease in past due account balances.

Travel, meetings and training expense was \$7.1 million for the nine months ended September 30, 2003 compared with \$9.4 million for the nine months ended September 30, 2002, a decrease of \$2.3 million or 24.5%. Publications, supplies and postage expense was \$5.3 million for the nine months ended September 30, 2003 compared with \$7.8 million for the nine months ended September 30, 2002, a decrease of \$2.5 million or 32.1%. These decreases were primarily due to lower overall spending as a result of Nasdaq's cost reduction plan.

The remaining direct expenses were \$53.0 million for the nine months ended September 30, 2003 compared with \$57.8 million for the nine months ended September 30, 2002, a decrease of \$4.8 million or 8.3%. This decrease was primarily due to a \$4.9 million write-down of an auxiliary trading technology platform in the second quarter of 2002 and losses from Nasdaq's equity investment in Japan.

Elimination of Non-Core Product Lines, Initiatives and Severance

During the second quarter of 2003, Nasdaq announced a plan designed to position Nasdaq for improved profitability and growth, which included the elimination of non-core products and initiatives. Additional charges related to the strategic review are expected in future periods. In the second quarter of 2003, a pre-tax charge to earnings of \$59.8 million was recorded. The net impact to Nasdaq was a pre-tax charge of \$57.8 million. The difference represented costs absorbed by minority shareholders of Nasdaq Europe. In the third quarter of 2003, an additional pre-tax charge to earnings of \$49.3 million was recorded relating to the continued elimination of the non-core products and initiatives, resulting in a total charge of \$109.1 million as of September 30, 2003. For further discussion see Item 2. Management's Discussion and Analysis for Financial Condition and Results of Operations—For the Three Months Ended September 30, 2003 and September 30, 2002, "Elimination of Non-Core Products Lines, Initiatives and Severance".

Nasdaq Japan Impairment Loss

During the second quarter of 2002, Nasdaq recognized an other-than-temporary impairment charge on its equity investment in Nasdaq Japan of \$15.2 million. Nasdaq Japan entered into liquidation status in late November 2002 and was completely dissolved in May 2003. See Note 2, Significant Transactions, for further discussion.

During the second quarter of 2003, Nasdaq reversed \$5.0 million of the reserves related to Nasdaq Japan due to favorable contract negotiations and lower legal costs resulting from the complete liquidation of Nasdaq Japan.

Support Costs from Related Parties, net

Support costs from related parties were \$48.4 million for the nine months ended September 30, 2003 compared with \$56.5 million for the nine months ended September 30, 2002, a decrease of \$8.1 million or 14.3%. This decrease reflects a reduction in surveillance and other regulatory charges from the NASDR as well as continued progress in separating from the NASD and the resulting internalization of technology and certain other support functions. Surveillance and other regulatory charges from NASDR were \$48.6 million for the nine months ended September 30, 2003 compared with \$58.1 million for the nine months ended September 30, 2002, a decrease of \$9.5 million or 16.4%. Support costs from the NASD were \$0.9 million for the nine months ended September 30, 2003 compared with \$4.9 million for the nine months ended September 30, 2002, a decrease of \$4.0 million or 81.6%. In addition, partially offsetting the above is the amount of Nasdaq costs charged to the Amex of \$1.1 million for the nine months ended September 30, 2003 compared with \$6.5 million for the nine months ended September 30, 2002, a decrease of \$5.4 million or 83.1%. This decrease was primarily due to the reduction in Amex's reliance on Nasdaq for support.

Income Taxes

Nasdaq's income tax benefit was \$19.3 million for the nine months ended September 30, 2003 compared to an income tax provision of \$40.7 million for the nine months ended September 30, 2002. The overall effective tax rate for the nine months ended September 30, 2003 and September 30, 2002 was 18.6% and 48.7%, respectively. The change in Nasdaq's effective tax rate was primarily due to the increase in foreign losses for which no tax benefit is available, the write-off of goodwill related to the strategic review of Nasdaq Tools and Nasdaq Europe and a valuation allowance against deferred tax assets for capital losses. Goodwill is not deductible for U.S. income tax purposes. See Note 2, Significant Transactions, for further discussion of the strategic review.

The effective tax rate may vary from period to period depending on, among other facts, the geographic and business mix of earnings and losses. These same and other factors, including history of pre-tax earnings and losses, are taken into account in assessing the ability to realize deferred tax assets.

Liquidity and Capital Resources

September 30, 2003 compared to December 31, 2002

Cash and cash equivalents and available-for-sale securities totaled \$322.6 million at September 30, 2003 compared with \$426.4 million at December 31, 2002, a decrease of \$103.8 million or 24.3%. Working capital (calculated as current assets, reduced for held-to-maturity investments classified as current assets, less current liabilities) totaled \$264.2 million at September 30, 2003 compared with \$403.0 million at December 31, 2002, a decrease of \$138.8 million or 34.4%.

Cash and cash equivalents totaled \$127.8 million at September 30, 2003 compared with \$204.3 million at December 31, 2002, a decrease of \$76.5 million or 37.4% primarily due to cash used in investing activities of \$11.8 million and cash used in financing activities of \$153.6 million, partially offset by cash provided by operating activities of \$88.9 million.

Operating activities provided net cash inflows of \$88.9 million for the nine months ended September 30, 2003, primarily due to cash received from customers and net income tax refunds less cash paid to suppliers, employees and related parties.

Net cash used in investing activities was \$11.8 million for the nine months ended September 30, 2003, primarily due to purchases of \$151.7 million of available-for-sale investments and capital expenditures of \$34.7 million related to Nasdaq Deutschland and general capacity increases offset by proceeds of \$177.4 million from the redemption of available-for-sale investments.

Cash used in financing activities was approximately \$153.6 million for the nine months ended September 30, 2003, primarily due to the redemption of \$150.0 million outstanding aggregate principal amount of the Senior Notes. Nasdaq paid the holders of the Senior Notes \$150.0 million in outstanding principal amount, accrued interest of \$1.2 million and an aggregate make-whole payment of approximately \$12.6 million (representing the net present value of future payments). Nasdaq used funds from available cash to finance the redemption.

Nasdaq believes that the liquidity provided by existing cash and cash equivalents, investments and cash generated from operations will provide sufficient capital to meet current and future operating requirements. On August 29, 2002, Nasdaq entered into a \$150.0 million unsecured revolving-credit facility. Nasdaq planned to use the Facility for general corporate purposes. In June 2003, Nasdaq had not utilized this Facility and decided to terminate the Facility. Nasdaq has generated positive cash flows annually in each of the six years since 1996 and believes that in the future it will be able to meet both short and long-term operating requirements.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

Market risk represents the risks of changes in the value of a financial instrument, derivative or non-derivative, caused by fluctuations in interest rates, foreign exchange rates and equity prices. As of September 30, 2003, Nasdaq's investment portfolio consisted primarily of floating rate securities, obligations of U.S. Government sponsored enterprises, municipal bonds, corporate bonds and U.S. Treasuries. Nasdaq's primary market risk is associated with fluctuations in interest rates and the effects that such fluctuations may have on its investment portfolio and outstanding debt. The weighted average maturity of the fixed income portion of the portfolio is 1.02 years as of September 30, 2003. Nasdaq's outstanding debt obligations generally specify fixed rates until May 2007 and a floating interest rate based on the lender's cost of funds maturity in 2012. The investment portfolio is held primarily in short-term investments with maturities averaging approximately one year. Therefore, management does not believe that a 100 basis point fluctuation in market interest rates will have a material effect on the carrying value of Nasdaq's investment portfolio or on Nasdaq earnings or cash flows. Nasdaq's exposure to these risks has not materially changed since December 31, 2002.

Nasdaq also has exposure to foreign currency translation gains and losses due to its subsidiaries and equity method investments. As of September 30, 2003, Nasdaq has hedged certain foreign currency exposure. Nasdaq expects to periodically re-evaluate its foreign currency hedging policies and may choose in the future to enter into additional transactions. As a result of Nasdaq's Strategic Review, particularly the wind-down of Nasdaq Europe, Nasdaq expects a reduction in foreign currency translation gains and losses.

Item 4. Controls and Procedures

(a). Disclosure controls and procedures. Nasdaq's management, with the participation of Nasdaq's President and Chief Executive Officer and Executive Vice President and Chief Financial Officer, has evaluated the effectiveness of Nasdaq's disclosure controls and procedures (as defined in Rule 13a-15 (e) and Rule 15d-15 (e) under the Securities Exchange Act of 1934 (the "Exchange Act")) as of the end of the period covered by this report. Based upon that evaluation, Nasdaq's President and Chief Executive Officer and Executive Vice President and Chief Financial Officer have concluded that, as of the end of such period, Nasdaq's disclosure controls and procedures are effective.

(b). Internal controls over financial reporting. There have been no changes in Nasdaq's internal controls over financial reporting (as defined in Rule 13a-15(f) and Rule 15d-15(f) under the Exchange Act) that occurred during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, Nasdaq's internal controls over financial reporting.

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The Nasdaq Stock Market, Inc.

PART II—OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

The exhibits required by this item are set forth on the Exhibit Index attached hereto.

(b) Reports on Form 8-K:

The following reports on Form 8-K were furnished during the three months ended September 30, 2003.

1. Form 8-K, dated August 5, 2003 (Items 7 and 12).

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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: November 14, 2003

By: /s/ ROBERT GREIFELD

Name: Robert Greifeld
Title: President and Chief Executive Officer

Date: November 14, 2003

By: /s/ DAVID P. WARREN

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

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EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Exhibit Name</u>
3.1	Restated Certificate of Incorporation of The Nasdaq Stock Market, Inc.
10.1	Separation and General Release Agreement, dated as of July 23, 2003, between The Nasdaq Stock Market, Inc. and John L. Hilley.
11.1	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 9 to the Condensed Consolidated Financial Statements (Capital Stock and Earnings Per Share)).
31.1	Certification of President and Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley").
31.2	Certification of Executive Vice President and Chief Financial Officer pursuant to Section 302 of Sarbanes-Oxley.
32.1	Certifications Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of Sarbanes-Oxley.

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[The Nasdaq Stock Market, Inc. Condensed Consolidated Balance Sheets \(in thousands, except share amounts\)](#)

[The Nasdaq Stock Market, Inc. Condensed Consolidated Statements of Cash Flows \(Unaudited\) \(in thousands\)](#)

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RESTATED CERTIFICATE OF INCORPORATION

OF

THE NASDAQ STOCK MARKET, INC.

The undersigned, Joan C. Conley, Corporate Secretary of The Nasdaq Stock Market, Inc. ("Nasdaq"), a Delaware corporation, does hereby certify:

FIRST: That the name of the corporation is The Nasdaq Stock Market, Inc. The date of the filing of its original Certificate of Incorporation with the Secretary of State of the State of Delaware was November 13, 1979. The name under which Nasdaq was originally incorporated was "NASD Market Services, Inc."

SECOND: That the Restated Certificate of Incorporation of Nasdaq dated June 27, 2000, as previously amended by the Certificate of Designations, Preferences and Rights of Series A Cumulative Preferred Stock dated March 8, 2002, the Certificate of Designations, Preferences and Rights of Series B Preferred Stock dated March 8, 2002, and the Certificate of Amendment dated August 7, 2002, is hereby restated and integrated to read in its entirety as follows:

ARTICLE FIRST

The name of the corporation is The Nasdaq Stock Market, Inc.

ARTICLE SECOND

The address of Nasdaq's registered office in the State of Delaware is 1209 Orange Street, City of Wilmington, County of New Castle, Delaware 19801. The name of Nasdaq's registered agent at such address is The Corporation Trust Company.

ARTICLE THIRD

The nature of the business or purposes to be conducted or promoted is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware, and, without limiting the generality of the foregoing business or purposes to be conducted or promoted, shall include, to the extent applicable to Nasdaq, the responsibilities and functions set forth in the "Plan of Allocation and Delegation of Functions by NASD to Subsidiaries," as approved by the Securities and Exchange Commission, as amended from time to time.

ARTICLE FOURTH

A. The total number of shares of stock which Nasdaq shall have the authority to issue is Three Hundred Thirty Million (330,000,000), consisting of Thirty Million (30,000,000) shares of Preferred Stock, par value \$.01 per share (hereinafter referred to as "Preferred Stock"), and Three Hundred Million (300,000,000) shares of Common Stock, par value \$.01 per share (hereinafter referred to as "Common Stock").

B. The Preferred Stock may be issued from time to time in one or more series. The Board of Directors of Nasdaq (the "Board") is hereby authorized to provide for the issuance of shares of Preferred Stock in one or more series and, by filing a certificate pursuant to the applicable law of the State of Delaware (hereinafter referred to as "Preferred Stock Designation"), to establish from time to time the number of shares to be included in each such series, and to fix the designation, powers, preferences and rights of the shares of each such series and the qualifications, limitations and restrictions thereof. The authority of the Board with respect to each series shall include, but not limited to, determination of the following:

(1) The designation of the series, which may be by distinguishing number, letter or title.

(2) The number of shares of the series, which number the Board may thereafter (except where otherwise provided in the Preferred Stock Designation) increase or decrease (but not below the number of shares thereof then outstanding).

(3) The amounts payable on, and the preferences, if any, of shares of the series in respect of dividends, and whether such dividends, if any, shall be cumulative or noncumulative.

(4) Dates at which dividends, if any, shall be payable.

(5) The redemption rights and price or prices, if any, for shares of the series.

(6) The terms and amount of any sinking fund provided for the purchase or redemption of shares of the series.

(7) The amounts payable on, and the preferences, if any, of shares of the series in the event of any voluntary or involuntary liquidation, dissolution or winding up of the affairs of Nasdaq.

(8) Whether the shares of the series shall be convertible into or exchangeable for shares of any other class or series, or any other security, of Nasdaq or any other corporation, and, if so, the specification of such other class or series or such other security, the conversion or exchange price or prices or rate or rates, any adjustments thereof, the date or dates at which such shares shall be convertible or exchangeable and all other terms and conditions upon which such conversion or exchange may be made.

(9) Restrictions on the issuance of shares of the same series or of any other class or series.

(10) The voting rights, if any, of the holders of shares of the series.

Pursuant to the foregoing authority, the Board has previously authorized the issuance of (i) Series A Cumulative Preferred Stock by filing a Certificate of Designations, Preferences and Rights with the Secretary of State of the State of Delaware on March 8, 2002, and (ii) Series B Preferred Stock by filing a Certificate of Designations, Preferences and Rights with the Secretary of State of the State of Delaware on March 8, 2002. The number of shares included in the Series A Cumulative Preferred Stock, the powers, preferences and rights of the shares of such series, and the qualifications, limitations and restrictions thereof are set forth in Annex A hereto, and the number of shares included in the Series B Preferred Stock, the powers, preferences and rights of the shares of such series, and the qualifications, limitations and restrictions thereof are set forth in Annex B hereto.

C. 1. (a) Except as may otherwise be provided in this Restated Certificate of Incorporation (including any Preferred Stock Designation) or by applicable law, each holder of Common Stock, as such, shall be entitled to one vote for each share of Common Stock held of record by such holder on all matters on which stockholders generally are entitled to vote, and no holder of any series of Preferred Stock, as such, shall be entitled to any voting powers in respect thereof.

(b) Except as may otherwise be provided in this Restated Certificate of Incorporation or by applicable law, the holders of the 4.0% Convertible Subordinated Notes due 2006 (the "Notes") which may be issued from time to time by Nasdaq shall be entitled to vote on all matters submitted to a vote of the stockholders of Nasdaq, voting together with the holders of the Common Stock (and of any other shares of capital stock of Nasdaq entitled to vote at a meeting of stockholders) as one class. Each principal amount of Notes shall be entitled to a number of votes equal to the number of votes represented by the Common Stock of Nasdaq that could then be acquired upon conversion of such principal amount of Notes into Common Stock, subject to adjustments as provided in the Notes. Holders of the Notes shall be deemed to be stockholders of Nasdaq, and the Notes shall be deemed to be shares of stock, solely for the purpose of any provision of the General Corporation Law of the State of Delaware or this Restated Certificate of Incorporation that requires the vote of stockholders as a prerequisite to any corporate action.

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2. Notwithstanding any other provision of this Restated Certificate of Incorporation, but subject to subparagraph 6 of this paragraph C. of this Article Fourth, in no event shall (i) any record owner of any outstanding Common Stock or Preferred Stock which is beneficially owned, directly or indirectly, as of any record date for the determination of stockholders and/or holders of Notes entitled to vote on any matter, or (ii) any holder of any Notes which are beneficially owned, directly or indirectly, as of any record date for the determination of stockholders and/or holders of Notes entitled to vote on any matter, by a person (other than an Exempt Person) who beneficially owns shares of Common Stock, Preferred Stock and/or Notes ("Excess Shares and/or Notes") in excess of five percent (5%) of the then-outstanding shares of stock generally entitled to vote as of the record date in respect of such matter, be entitled or permitted to vote any Excess Shares and/or Notes on such matter. For all purposes hereof, any calculation of the number of shares of stock outstanding at any particular time, including for purposes of determining the particular percentage of such outstanding shares of stock of which any person is the beneficial owner, shall be made in accordance with the last sentence of Rule 13d-3(d)(1)(i) of the General Rules and Regulations under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as in effect on the date of filing this Restated Certificate of Incorporation.

3. The following definitions shall apply to this paragraph C. of this Article Fourth:

(a) "Affiliate" shall have the meaning ascribed to that term in Rule 12b-2 of the General Rules and Regulations under the Exchange Act, as in effect on the date of filing this Restated Certificate of Incorporation.

(b) A person shall be deemed the "beneficial owner" of, shall be deemed to have "beneficial ownership" of and shall be deemed to "beneficially own" any securities:

(i) which such person or any of such person's Affiliates is deemed to beneficially own, directly or indirectly, within the meaning of Rule 13d-3 of the General Rules and Regulations under the Exchange Act as in effect on the date of the filing of this Restated Certificate of Incorporation;

(ii) which such person or any of such person's Affiliates has (A) the right to acquire (whether such right is exercisable immediately or only after the passage of time) pursuant to any agreement, arrangement or understanding (other than customary agreements with and between underwriters and selling group members with respect to a bona fide public offering of securities), or upon the exercise of conversion rights, exchange rights, rights, warrants or options, or otherwise; *provided, however*, that a person shall not be deemed the beneficial owner of, or to beneficially own, securities tendered pursuant to a tender or exchange offer made by or on behalf of such person or any of such person's Affiliates until such tendered securities are accepted for purchase; or (B) the right to vote pursuant to any agreement, arrangement or understanding; *provided, however*, that a person shall not be deemed the beneficial owner of, or to beneficially own, any security by reason of such agreement, arrangement or understanding if the agreement, arrangement or understanding to vote such security (1) arises solely from a revocable proxy or consent given to such person in response to a public proxy or consent solicitation made pursuant to, and in accordance with, the applicable rules and regulations promulgated under the Exchange Act and (2) is not also then reportable on Schedule 13D under the Exchange Act (or any comparable or successor report); or

(iii) which are beneficially owned, directly or indirectly, by any other person and with respect to which such person or any of such person's Affiliates has any agreement, arrangement or understanding (other than customary agreements with and between underwriters and selling group members with respect to a bona fide public offering of securities) for the purpose of acquiring, holding, voting (except to the extent contemplated by

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the proviso to (b)(ii)(B) above) or disposing of such securities; *provided, however*, that (A) no person who is an officer, director or employee of an Exempt Person shall be deemed, solely by reason of such person's status or authority as such, to be the "beneficial owner" of, to have "beneficial

ownership" of or to "beneficially own" any securities that are "beneficially owned" (as defined herein), including, without limitation, in a fiduciary capacity, by an Exempt Person or by any other such officer, director or employee of an Exempt Person, and (B) the Voting Trustee, as defined in the Voting Trust Agreement by and among Nasdaq, the National Association of Securities Dealers, Inc., a Delaware corporation (the "NASD"), and The Bank of New York, a New York banking corporation, as such may be amended from time to time (the "Voting Trust Agreement"), shall not be deemed, solely by reason of such person's status or authority as such, to be the "beneficial owner" of, to have "beneficial ownership" of or to "beneficially own" any securities that are governed by and held in accordance with the Voting Trust Agreement.

(c) A "person" shall mean any individual, firm, corporation, partnership, limited liability company or other entity.

(d) "Exempt Person" shall mean Nasdaq or any Subsidiary of Nasdaq, in each case including, without limitation, in its fiduciary capacity, or any employee benefit plan of Nasdaq or of any Subsidiary of Nasdaq, or any entity or trustee holding stock for or pursuant to the terms of any such plan or for the purpose of funding any such plan or funding other employee benefits for employees of Nasdaq or of any Subsidiary of Nasdaq.

(e) "Subsidiary" of any person shall mean any corporation or other entity of which securities or other ownership interests having ordinary voting power sufficient to elect a majority of the board of directors or other persons performing similar functions are beneficially owned, directly or indirectly, by such person, and any corporation or other entity that is otherwise controlled by such person.

(f) The Board shall have the power to construe and apply the provisions of this paragraph C. of this Article Fourth and to make all determinations necessary or desirable to implement such provisions, including, but not limited to, matters with respect to (1) the number of shares of stock beneficially owned by any person, (2) the number of Notes beneficially owned by any person, (3) whether a person is an Affiliate of another, (4) whether a person has an agreement, arrangement or understanding with another as to the matters referred to in the definition of beneficial ownership, (5) the application of any other definition or operative provision hereof to the given facts, or (6) any other matter relating to the applicability or effect of this paragraph C. of this Article Fourth.

4. The Board shall have the right to demand that any person who is reasonably believed to hold of record or beneficially own Excess Shares and/or Notes supply Nasdaq with complete information as to (a) the record owner(s) of all shares and/or Notes beneficially owned by such person who is reasonably believed to own Excess Shares and/or Notes, and (b) any other factual matter relating to the applicability or effect of this paragraph C. of this Article Fourth as may reasonably be requested of such person.

5. Any constructions, applications, or determinations made by the Board, pursuant to this paragraph C. of this Article Fourth, in good faith and on the basis of such information and assistance as was then reasonably available for such purpose, shall be conclusive and binding upon Nasdaq, its stockholders and the holders of the Notes.

6. Notwithstanding anything herein to the contrary, subparagraph 2 of this paragraph C. of this Article Fourth shall not be applicable to any Excess Shares and/or Notes beneficially owned by (a) the NASD or its Affiliates until such time as the NASD beneficially owns five percent (5%) or less of the

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outstanding shares of stock and/or Notes entitled to vote on the election of a majority of directors at such time, (b) any other person as may be approved for such exemption by the Board prior to the time such person beneficially owns more than five percent (5%) of the outstanding shares of stock and/or Notes entitled to vote on the election of a majority of directors at such time or (c) Hellman & Friedman Capital Partners IV, L.P., H&F International Partners IV-A, L.P., H&F International Partners IV-B, L.P., and H&F Executive Fund, L.P. if the Board has approved an exemption for any other person pursuant to Section 6(b) of this paragraph C. of this Article Fourth (other than an exemption granted in connection with the establishment of a strategic alliance with another exchange or similar market). The Board, however, may not approve an exemption under Section 6(b): (i) for a registered broker or dealer or an Affiliate thereof (provided that, for these purposes, an Affiliate shall not be deemed to include an entity that either owns ten percent or less of the equity of a broker or dealer, or the broker or dealer accounts for one percent or less of the gross revenues received by the consolidated entity); or (ii) an individual or entity that is subject to a statutory disqualification under Section 3(a)(39) of the Exchange Act. The Board may approve an exemption for any other stockholder or holder of Notes if the Board determines that granting such exemption would (A) not reasonably be expected to diminish the quality of, or public confidence in, The Nasdaq Stock Market or the other operations of Nasdaq, on the ability to prevent fraudulent and manipulative acts and practices and on investors and the public, and (B) promote just and equitable principles of trade, foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to and facilitating transactions in securities or assist in the removal of impediments to or perfection of the mechanisms for a free and open market and a national market system.

7. In the event any provision (or portion thereof) of this paragraph C. of this Article Fourth shall be found to be invalid, prohibited or unenforceable for any reason, the remaining provisions (or portions thereof) of this paragraph C. of this Article Fourth shall remain in full force and effect, and shall be construed as if such invalid, prohibited or unenforceable provision (or portion hereof) had been stricken herefrom or otherwise rendered inapplicable, it being the intent of Nasdaq, its stockholders and the holders of the Notes that each such remaining provision (or portion thereof) of this paragraph C. of this Article Fourth remains, to the fullest extent permitted by law, applicable and enforceable as to all stockholders and all holders of Notes, including stockholders and holders of Notes that beneficially own Excess Shares and/or Notes, notwithstanding any such finding.

ARTICLE FIFTH

A. The business and affairs of Nasdaq shall be managed by, or under the direction of, the Board. The total number of directors constituting the entire Board shall be fixed from time to time by the Board.

B. The Board (other than those directors elected by the holders of any series of Preferred Stock provided for or fixed pursuant to the provisions of Article Fourth hereof, (the "Preferred Stock Directors")) shall be divided into three classes, as nearly equal in number as possible, designated Class I, Class II and Class III. Class I directors shall initially serve until the first annual meeting of stockholders following the effectiveness of this Restated Certificate of Incorporation; Class II directors shall initially serve until the second annual meeting of stockholders following the effectiveness of this Restated Certificate of Incorporation; and Class III directors shall initially serve until the third annual meeting of stockholders following the effectiveness of this Restated Certificate of Incorporation. Commencing with the first annual meeting of stockholders following the effectiveness of this Restated Certificate of Incorporation, directors of each class the term of which shall then expire shall be elected to hold office for a three-year term and until the election and qualification of their respective

successors in office. In case of any increase or decrease, from time to time, in the number of directors (other than Preferred Stock Directors), the number of directors in each class shall be apportioned as nearly equal as possible.

C. Subject to the rights of the holders of any one or more series of Preferred Stock then outstanding, newly created directorships resulting from any increase in the authorized number of directors or any vacancies in the Board resulting from death, resignation, retirement, disqualification, removal from office or other cause shall only be filled by the Board. Any director so chosen shall hold office until the next election of the class for which such directors shall have been chosen and until his successor shall be elected and qualified. No decrease in the number of directors shall shorten the term of any incumbent director.

D. Except for Preferred Stock Directors, any director, or the entire Board, may be removed from office at any time, but only for cause and only by the affirmative vote of at least 66²/₃% of the total voting power of the outstanding shares of capital stock of Nasdaq entitled to vote generally in the election of directors ("Voting Stock"), voting together as a single class.

E. During any period when the holders of any series of Preferred Stock have the right to elect additional directors as provided for or fixed pursuant to the provisions of Article Fourth hereof, then upon commencement and for the duration of the period during which such right continues: (i) the then otherwise total authorized number of directors of Nasdaq shall automatically be increased by such specified number of directors, and the holders of such Preferred Stock shall be entitled to elect the additional directors so provided for or fixed pursuant to said provisions, and (ii) each such additional director shall serve until such director's successor shall have been duly elected and qualified, or until such director's right to hold such office terminates pursuant to said provisions, whichever occurs earlier, subject to his earlier death, disqualification, resignation or removal. Except as otherwise provided by the Board in the resolution or resolutions establishing such series, whenever the holders of any series of Preferred Stock having such right to elect additional directors are divested of such right pursuant to the provisions of such stock, the terms of office of all such additional directors elected by the holders of such stock, or elected to fill any vacancies resulting from death, resignation, disqualification or removal of such additional directors, shall forthwith terminate and the total authorized number of directors of Nasdaq shall automatically be reduced accordingly.

ARTICLE SIXTH

A. A director of Nasdaq shall not be liable to Nasdaq or its stockholders for monetary damages for breach of fiduciary duty as a director, except to the extent that such exemption from liability or limitation thereof is not permitted under the General Corporation Law of the State of Delaware as the same exists or may hereafter be amended.

B. Any repeal or modification of paragraph A. shall not adversely affect any right or protection of a director of Nasdaq existing hereunder with respect to any act or omission occurring prior to such repeal or modification.

ARTICLE SEVENTH

No action that is required or permitted to be taken by the stockholders of Nasdaq at any annual or special meeting of stockholders may be effected by written consent of stockholders in lieu of a meeting of stockholders.

ARTICLE EIGHTH

In furtherance of, and not in limitation of, the powers conferred by law, the Board is expressly authorized and empowered to adopt, amend or repeal the By-Laws of Nasdaq; *provided, however*, that the By-Laws adopted by the Board under the powers hereby conferred may be amended or repealed by the Board or by the stockholders having voting power with respect thereto, *provided further* that, notwithstanding any other provision of this Restated Certificate of Incorporation or any provision of law which might otherwise permit a lesser vote or no vote, but in addition to any affirmative vote of

the holders of any particular class or series of the stock required by law or this Restated Certificate of Incorporation, the affirmative vote of the holders of at least 66²/₃% percent of the total voting power of the outstanding Voting Stock, voting together as a single class, shall be required in order for the stockholders to adopt, alter, amend or repeal any By-Law.

ARTICLE NINTH

Nasdaq reserves the right to amend, alter, change, or repeal any provisions contained in this Restated Certificate of Incorporation, in the manner now or hereafter prescribed by statute, and all rights conferred herein are granted subject to this reservation; *provided, however*, that the affirmative vote of the holders of at least 66²/₃% of the voting power of the outstanding Voting Stock, voting together as a single class, shall be required to amend, repeal or adopt any provision inconsistent with paragraph C. of Article Fourth, Article Fifth, Article Seventh, Article Eighth or this Article Ninth; *provided further, however*, the affirmative vote of at least 66²/₃% of the voting power of the holders of the outstanding Notes shall also be required to (i) amend paragraph C. of Article Fourth in a manner that would adversely affect the rights of the holders of the Notes thereunder without similarly affecting the rights of the holders of the Common Stock thereunder or (ii) amend this clause.

ARTICLE TENTH

Nasdaq shall have perpetual existence.

ARTICLE ELEVENTH

In light of the unique nature of Nasdaq and its operations and in light of Nasdaq's status as a self-regulatory organization, the Board of Directors, when evaluating (A) any tender or exchange offer or invitation for tenders or exchanges, or proposal to make a tender or exchange offer or request or invitation for tenders or exchanges, by another party, for any equity security of Nasdaq, (B) any proposal or offer by another party to (1) merge or consolidate Nasdaq or any subsidiary with another corporation or other entity, (2) purchase or otherwise acquire all or a substantial portion of the properties or assets of Nasdaq or any subsidiary, or sell or otherwise dispose of to Nasdaq or any subsidiary all or a substantial portion of the properties or assets of such other party, or (3) liquidate, dissolve, reclassify the securities of, declare an extraordinary dividend of, recapitalize or reorganize Nasdaq, (C) any action, or any failure to act, with respect to any holder or potential holder of Excess Shares and/or Notes subject to the limitations set forth in subparagraph 2 of paragraph C. of Article Fourth, (D) any demand or proposal, precatory or otherwise, on behalf of or by a holder or potential holder of Excess Shares and/or Notes subject to the limitations set forth in subparagraph 2 of paragraph C. of Article Fourth or (E) any other issue, shall, to the fullest extent permitted by applicable law, take into account all factors that the Board of Directors deems relevant, including, without limitation, to the extent deemed relevant, (i) the potential impact thereof on the integrity, continuity and stability of The Nasdaq Stock Market and the other operations of Nasdaq, on the ability to prevent fraudulent and manipulative acts and practices and on investors and the public, and (ii) whether such would promote just and equitable principles of trade, foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to and facilitating transactions in securities or assist in the removal of impediments to or perfection of the mechanisms for a free and open market and a national market system.

THIRD: That such Restated Certificate of Incorporation has been duly adopted by Nasdaq in accordance with the applicable provisions of Sections 245 of the General Corporation Law of the State of Delaware;

FOURTH: That such Restated Certificate of Incorporation only restates and integrates and does not further amend the provisions of Nasdaq's certificate of incorporation as heretofore amended or supplemented, and that there is no discrepancy between those provisions and the provisions of such Restated Certificate of Incorporation.

IN WITNESS WHEREOF, the undersigned has executed this certificate this 23rd day of May, 2003.

THE NASDAQ STOCK MARKET, INC.

By: /s/ Joan C. Conley

(signature)

Joan C. Conley

(printed name)

Senior Vice President and Corporate Secretary

(title)

ANNEX A

Section 1. Designation and Amount. The series of preferred stock created hereby shall be designated "Series A Cumulative Preferred Stock," par value \$.01 per share (hereinafter called the "Series A Preferred Stock") and the number of shares constituting such series shall be 1,338,402.

Section 2. Dividends; Ranking.

(a) The holders of the Series A Preferred Stock shall be entitled to receive when, as and if declared by the Board of Directors out of the funds legally available therefor,

(i) during the period commencing the date which is the first anniversary (the "7.60% Dividend Date") of the date of the original issuance of the Series A Preferred Stock (the "Issue Date") and ending the date that is the second anniversary of the Issue Date (the "Second Anniversary Date") cash dividends, at the annual rate of 7.60% of the Series A Preferred Stock Liquidation Preference (as defined below) per annum per share, and no more, which shall be fully cumulative and shall accrue without interest from the 7.60% Dividend Date, and

(ii) during the period commencing the date which is the day immediately following the Second Anniversary Date (the "10.60% Dividend Date"), cash dividends, at the annual rate of 10.60% of the Series A Preferred Stock Liquidation Preference per annum per share, and no more, which shall be fully cumulative and shall accrue without interest from the 10.60% Dividend Date.

No dividends shall accrue in respect of the period commencing on the Issue Date and ending on the date that is the day immediately prior to the 7.60% Dividend Date. Dividends shall be paid quarterly in arrears in equal amounts (prorated for any partial dividend period) on March 31, June 30, September 30 and December 31 of each year (unless such day is not a Business Day (as defined below), in which event such dividends shall be payable on the next succeeding Business Day) (each such date being referred to herein as a "Dividend Payment Date"), commencing with March 31, 2003 (and in the case of any accrued but unpaid dividends, at such additional times and for such interim periods, if any, as determined by the Board of Directors) to the holders of record as they appear on the stock books of the transfer agent for the Corporation (the "Transfer Agent") on the immediately preceding March 15, June 15, September 15 and December 15, respectively, (and in the case of accrued and unpaid dividends to be paid at such additional times and for such interim periods, if any, on such record dates, which shall be not more than 30 days nor less than 10 days preceding the Dividend Payment Dates, as fixed by the Board of Directors) (each such date being referred

to herein as a "Series A Record Date"), *provided* that holders of shares of Series A Preferred Stock called for redemption on a redemption date falling between any Series A Record Date and the corresponding Dividend Payment Date shall, in lieu of receiving such dividend payment on the Dividend Payment Date fixed therefor, receive such dividend payment together with all other accrued and unpaid dividends on the date fixed for redemption. The amount of dividends payable per share of Series A Preferred Stock for each quarterly dividend period shall be computed, which computation shall be made within five Business Days of the Dividend Payment Date, by dividing the annual dividend amount per share by four and adding to such amount the amount of all accrued and unpaid dividends. The amount of dividends payable for the initial dividend period and dividends payable for any other period that is shorter or longer than a full quarterly dividend period shall be computed on the basis of a 360-day year consisting of twelve 30-day months. Holders of shares of Series A Preferred Stock shall not be entitled to receive any dividends, whether payable in cash, property or stock, which are in excess of the cumulative dividends provided for herein.

"Business Day" shall mean any day other than a Saturday, Sunday or a day on which state or federally chartered banking institutions in New York, New York are not required to be open.

(b) The Series A Preferred Stock shall rank, both as to the payment of dividends and as to the distribution of assets upon Liquidation (as defined below), senior to any existing and future classes or series of equity securities of the Corporation, including, without limitation, the Corporation's Common Stock, par value \$.01 per share (the "Common Stock"), and the Corporation's Series B Preferred Stock, par value \$.01 ("Series B Preferred Stock").

(c) So long as any shares of the Series A Preferred Stock are outstanding, no dividends (other than dividends or distributions paid in shares of, or options, warrants or rights to subscribe for or purchase, or to effectuate a stock split, on shares of Junior Securities (as defined below)) shall be declared or paid or set apart for payment on Junior Securities, for any period, nor, except for the Series B Preferred Stock, shall any Junior Securities be redeemed, purchased or otherwise acquired (other than a redemption, purchase or other acquisition of shares of Common Stock made for the purposes of incentive or benefit plans or arrangements of the Corporation or any subsidiary thereof) for any consideration (or any moneys be paid to or made available for a sinking fund for the redemption of any such Junior Securities) by the Corporation (except for conversion into or exchange into other Junior Securities) unless, in each case, prior to or currently with such declaration, payment or setting apart for payment all accrued and unpaid dividends on all outstanding shares of the Series A Preferred Stock shall have been paid or set apart for payment and any such dividend on shares of Junior Securities or consideration for any such redemption, purchase or other acquisition of Junior Securities shall consist only of cash or Common Stock or options, warrants or rights to subscribe for or purchase Common Stock.

(d) As used in this Certificate of Designations, the term "Junior Securities" means any class or series of stock or equity securities of the Corporation that by its terms is junior to the Series A Preferred Stock, either as to the payment of dividends or as to the distribution of assets upon Liquidation, or both, including the Common Stock and the Series B Preferred Stock.

(e) For purposes of the Series A Preferred Stock, the amount of dividends "accrued" on any share of stock of any class or series as of any date shall be deemed to be the amount of any unpaid dividends accumulated thereon to and including the date of such determination.

Section 3. Preference on Liquidation.

(a) In the event of the Liquidation of the Corporation, the holders of the Series A Preferred Stock shall be entitled to have paid to them out of the assets of the Corporation available for distribution to stockholders before any distribution is made to or set apart for the holders of

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shares of Common Stock, Series B Preferred Stock or other Junior Securities, an amount in cash equal to \$100.00 per share plus all accrued and unpaid dividends thereon, whether or not declared, to the date of Liquidation (the "Series A Preferred Stock Liquidation Preference"); *provided, however*, upon a Liquidation in which upon distribution of assets some or all of the consideration shall be paid other than in cash, then the Series A Preferred Stock Liquidation Preference shall be payable in such form of consideration as shall be payable generally to stockholders upon such Liquidation, and if there shall be more than one type of consideration payable upon such Liquidation, then the Series A Preferred Stock Liquidation Preference shall be comprised of cash, to the full extent available, and such other type of consideration, it being understood that no holders of Junior Securities shall be entitled to receive any cash consideration unless and until the aggregate Series A Preferred Stock Liquidation Preference shall have been paid in full.

(b) If, upon any Liquidation, the assets of the Corporation or proceeds thereof distributable among the holders of shares of the Series A Preferred Stock shall be insufficient to permit the payment in full of the Series A Preferred Stock Liquidation Preference for each share of the Series A Preferred Stock then outstanding, then such assets or proceeds thereof shall be distributed among such holders of Series A Preferred Stock ratably in accordance with the respective amounts that would be payable on such shares if all amounts payable thereon were paid in full.

(c) In the event of a Liquidation, the Corporation shall give, by certified mail, return receipt requested, postage prepaid, addressed to each holder of any shares of Series A Preferred Stock at the address of such holder as shown on the books of the Corporation, at least 20 days' prior written notice of the date on which the books of the Corporation shall close or a record shall be taken for determining rights to vote in respect of any such Liquidation and of the date when the same shall take place.

(d) As used in this Certificate of Designations, the term "Liquidation" shall be deemed to include (i) any liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, (ii) the sale, lease, abandonment, transfer or other disposition (each, a "Transfer") by the Corporation of all or substantially all its assets for cash where (A) the Board of Directors is required, pursuant to the law of the state of incorporation of the Corporation, to approve such Transfer and (B) at the time of such Transfer no holder of Series A Preferred Stock, directly or indirectly, in the aggregate, has affirmative voting control of the Corporation either through ownership of capital stock or other equity securities or through representation on the Board of Directors (any Transfer satisfying the foregoing clauses (A) and (B), being referred to herein as a "Qualifying Asset Sale"), and (iii) any merger or consolidation of the Corporation into or with any other person or persons where (x) the Corporation is not the surviving person, (y) the Board of Directors is required, pursuant to the law of the state of incorporation of the Corporation, to approve such merger or consolidation and (z) at the time of such merger or consolidation, no holder of Series A Preferred Stock, directly or indirectly, in the aggregate, has affirmative voting control of the Corporation either through ownership of capital stock or other equity securities or through representation on the Board of Directors (any merger or consolidation satisfying the foregoing clauses (x), (y) and (z), being referred to herein as a "Qualifying Merger"). For the avoidance of doubt, "Liquidation" shall not be deemed to include (i) a consolidation or merger of the Corporation into or with any other entity or entities other than a

Qualifying Merger, (ii) other than in connection with a Qualifying Merger, a transaction or series of related transactions that results in the transfer of more than 50% of the voting power of the Corporation and (iii) the Transfer by the Corporation of all or substantially all its assets other than in connection with a Qualifying Asset Sale or in connection with a plan of liquidation, dissolution or winding up of the Corporation. Notwithstanding the foregoing, if at any time after the Issue Date, the Board of Directors determines in good faith, based upon a review of relevant information, including a

written opinion of its independent auditors, that as a result of any change in U.S. generally accepted accounting principles or any applicable U.S. accounting authority, treating a Qualifying Merger or a Qualifying Asset Sale as a Liquidation would no longer permit the Series A Preferred Stock to be accounted for as stockholders' equity of the Corporation, a "Liquidation" will no longer be deemed to include a Qualifying Merger or a Qualifying Asset Sale, as the case may be; *provided, however*, that the Corporation shall provide prompt notice of such determination by the Board of Directors, together with a copy of the written opinion of the Corporation's independent auditors referred to above, to each holder of the Series A Preferred Stock. For purposes of this Section 3(d) and Section 6, "person" means any natural person, corporation, general or limited partnership, limited liability company, joint venture, trust, association or entity of any kind.

Section 4. Voting.

(a) Except as herein provided or as otherwise required by applicable law, holders of Series A Preferred Stock shall have no voting rights.

(b) If and whenever four consecutive quarterly dividends payable on the Series A Preferred Stock have not been paid in full, the number of directors then constituting the Board of Directors shall be increased by two and the holders of the Series A Preferred Stock, voting as a single class, shall be entitled, in accordance with the Certificate of Incorporation and subject to the requirements of applicable laws, rules and regulations, to elect the two additional directors to serve on the Board of Directors at any annual meeting of stockholders or special meeting held in place thereof, or at a special meeting of the holders of the Series A Preferred Stock called as hereinafter provided. Whenever all arrears in dividends on the Series A Preferred Stock then outstanding shall have been paid or the Corporation shall have repurchased and redeemed all then-outstanding shares of Series A Preferred Stock, as the case may be, then the right of the holders of the Series A Preferred Stock to elect such additional two directors shall cease (but subject always to the same provisions for the vesting of such voting rights in the case of any similar future arrearages in four consecutive quarterly dividends), and the terms of office of all persons elected as directors by the holders of the Series A Preferred Stock shall forthwith terminate and the number of the Board of Directors shall be reduced accordingly. At any time after such voting power shall have been so vested in the holders of shares of the Series A Preferred Stock, the secretary of the Corporation may, and upon the written request of holders of at least 25% of the outstanding shares of Series A Preferred Stock (addressed to the secretary at the principal office of the Corporation) shall, call a special meeting of the holders of the Series A Preferred Stock for the election of the two directors, who shall satisfy all requirements of the Corporation's By-Laws, Certificate of Incorporation, applicable laws, rules and regulations for service as members of the Board of Directors, to be elected by them as herein provided, such call to be made by notice similar to that provided in the By-Laws of the Corporation for a special meeting of the stockholders or as required by law. If any such special meeting required to be called as above provided shall not be called by the secretary within 20 days after receipt of any such request, then any holder of shares of Series A Preferred Stock may call such meeting, upon the notice above provided, and for that purpose shall have access to the stock books of the Corporation. The directors elected at any such special meeting shall hold office until the next annual meeting of the stockholders or special meeting held in lieu thereof if such office shall not have previously terminated as above provided. If any vacancy shall occur among the directors elected by the holders of the Series A Preferred Stock, a successor shall be appointed by the then-remaining director elected by the holders of the Series A Preferred Stock or the successor of such remaining director of a person who satisfies all requirements of the Corporation's By-Laws, Certificate of Incorporation, applicable laws, rules and regulations for service as a member of the Board of Directors, to serve until the next annual meeting of the stockholders or special meeting held in place thereof if such office shall not have previously terminated as provided herein. If at any time both director positions elected by the holders of the Series A Preferred Stock are vacant at the

same time, the Board of Directors shall appoint such persons as designated by a majority of the holders of the Series A Preferred Stock who satisfy all requirements of the Corporation's By-Laws, Certificate of Incorporation, applicable laws, rules and regulations for service as a member of the Board of Directors, to serve until the next annual meeting of the stockholders or special meeting held in place thereof if such office shall not have previously terminated as provided herein. Directors elected or appointed in accordance with this Section 4(b) may only be removed with the written consent of at least 66²/₃% in Series A Preferred Stock Liquidation Preference of the outstanding shares of Series A Preferred Stock or the vote of holders of at least 66²/₃% in Series A Preferred Stock Liquidation Preference of the outstanding shares of Series A Preferred Stock at a meeting of the holders of Series A Preferred Stock called for such purpose.

(c) Without the written consent of the holders of at least 66²/₃% in Series A Preferred Stock Liquidation Preference of the outstanding shares of Series A Preferred Stock or the vote of holders of at least 66²/₃% in Series A Preferred Stock Liquidation Preference of the outstanding shares of Series A Preferred Stock at a meeting of the holders of Series A Preferred Stock called for such purpose, the Corporation will not amend, alter or repeal any provision of the Certificate of Incorporation (by merger or otherwise) so as to adversely affect the preferences, rights or powers of the Series A Preferred Stock; *provided* that any such amendment that changes the dividend payable on or the liquidation preference of the Series A Preferred Stock shall require the affirmative vote at a meeting of holders of Series A Preferred Stock called for such purpose or written consent of the holder of each share of Series A Preferred Stock.

(d) In exercising the voting rights set forth in this Section 4, each share of Series A Preferred Stock shall have one vote per share, except that when any other series of preferred stock shall have the right to vote with the Series A Preferred Stock as a single class on any matter, then the Series A Preferred Stock and such other series shall have with respect to such matters one vote per \$100 of stated liquidation preference, disregarding any provision for accrued and unpaid dividends. Except as otherwise required by applicable law or as set forth herein, the shares of Series A Preferred Stock shall not have any relative, participating, optional or other special voting rights and powers and the consent of the holders thereof shall not be required for the taking of any corporate action.

(a) *Optional Redemption.* Subject to the provisions of this Section 5, to the extent the Corporation shall have funds legally available for such payment, the Corporation shall have the right, exercisable from time to time, to redeem, at its option, in part or in whole, then-outstanding shares of Series A Preferred Stock at a redemption price per share in cash equal to \$100.00 plus any accrued and unpaid dividends in arrears to, but excluding, the applicable redemption date (the "Redemption Price"); *provided, however,* that no holder of Series A Preferred Stock, directly or indirectly, in the aggregate, has affirmative voting control of the Corporation either through ownership of capital stock or other equity securities, or through representation on the Board of Directors, at the time the Corporation determines to exercise its redemption right pursuant to this Section 5(a).

(b) *Mandatory Redemption Upon an IPO.* In the event of a sale by the Corporation of shares of Common Stock in the first underwritten public offering (the "IPO") of Common Stock pursuant to a registration statement under the Securities Act of 1933, as amended (the "Securities Act"), the Corporation shall, within 10 business days from the consummation of the IPO, use the net proceeds to the Corporation from the IPO (the "IPO Net Proceeds") to redeem, in part or in whole, the maximum number, rounded downward to the nearest share, of outstanding shares of Series A Preferred Stock that may be redeemed at the Redemption Price per share through application of the IPO Net Proceeds.

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(c) *Mandatory Redemption Upon a Non-IPO Sale of Capital Stock.* In the event of a sale by the Corporation or any of its Restricted Subsidiaries (as defined below) of shares of their capital stock or other equity securities for cash proceeds from time to time, other than in the IPO, the Corporation shall, within 60 days from the consummation of such sale, use the net proceeds to the Corporation or any of its Restricted Subsidiaries from any such sale (the "Stock Sale Net Proceeds") to redeem, in whole or in part, the maximum number, rounded downward to the nearest whole share, of outstanding shares of Series A Preferred Stock that may be redeemed at the Redemption Price per share through application of the Stock Sale Net Proceeds. The obligations of this Section 5(c) shall not apply:

(i) if the aggregate net proceeds in any transaction or series of transactions with respect to sales of capital stock by the Corporation or any Restricted Subsidiary does not exceed \$10,000,000;

(ii) to sales of capital stock in connection with a joint venture, strategic alliance or other similar arrangement, in any such case the primary purpose of which is other than the raising of capital for the Corporation and the consideration involved in such transaction is not predominantly comprised of cash, in each case as determined in good faith by the Board of Directors; *provided, however,* that for the purposes of this Section 5(c) (ii) any transaction or series of transactions that involves cross-shareholdings obtained through substantially similar cash investments shall not be deemed to have a primary purpose of raising capital or to involve predominantly cash consideration; or

(iii) to any issuance of shares of equity securities, or securities convertible into equity, by the Corporation or a Restricted Subsidiary, as the case may be, pursuant to benefit plans or arrangements for employees, officers, directors or consultants, or pursuant to warrants or convertible subordinated debentures outstanding on the Issue Date.

(d) If the Corporation shall redeem shares of Series A Preferred Stock pursuant to this Section 5, notice of such redemption shall be given by certified mail, return receipt requested, postage prepaid, mailed not less than two days nor more than 45 days prior to the redemption date, to each holder of record of the shares to be redeemed at such holder's address as the same appears on the stock books of the Transfer Agent. Any notice that was mailed in the manner herein provided shall be conclusively presumed to have been duly given on the date mailed whether or not the holder receives the notice. Each such notice shall state: (i) the redemption date; (ii) the number of shares of Series A Preferred Stock to be redeemed and, if fewer than all the shares held by such holder are to be redeemed, the number of shares to be redeemed from such holder; (iii) the amount payable; (iv) the place or places where certificates for such shares are to be surrendered for payment of the Redemption Price; and (v) that dividends on the shares to be redeemed will cease to accrue on such redemption date, except as otherwise provided herein.

(e) Upon surrender in accordance with notice given pursuant to this Section 5 of the certificates for any shares of Series A Preferred Stock (properly endorsed or assigned for transfer, if the Board of Directors of the Corporation shall so require and the notice shall so state), such shares shall be redeemed by the Corporation at the Redemption Price. If fewer than all the outstanding shares of Series A Preferred Stock are to be redeemed, the number of shares to be redeemed shall be determined by the Board of Directors in accordance with this Certificate of Designations and the shares to be redeemed shall be selected pro rata (with any fractional shares being rounded down to the nearest whole share). In case fewer than all the shares of Series A Preferred Stock represented by any such certificate are redeemed, a new certificate shall be issued representing the unredeemed shares without cost to the holder thereof.

(f) If notice has been mailed as aforesaid, from and after the redemption date (unless default shall be made by the Corporation in providing for the payment of the Redemption Price of

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the shares called for redemption), (i) except as otherwise provided herein, dividends on the shares of Series A Preferred Stock so called for redemption shall cease to accrue, (ii) said shares shall no longer be deemed to be outstanding, and (iii) all rights of the holders thereof as holders of the Series A Preferred Stock shall cease (except the right to receive from the Corporation the Redemption Price without interest thereon, upon surrender and endorsement of their certificates if so required).

(g) As used in this Certificate of Designations, the term "Restricted Subsidiary" shall be deemed to mean any direct or indirect subsidiary of the Corporation other than (i) any subsidiary set forth on Schedule A hereto and (ii) any subsidiary that is formed in connection with a joint venture, strategic alliance or other similar arrangement and the primary purpose of which is other than the raising of capital, as determined in good faith by the Board of Directors.

Section 6. Merger or Consolidation. In the event of a merger or consolidation of the Corporation with or into any person pursuant to which the Corporation shall not be the continuing person and that does not constitute a Liquidation within the meaning of Section 3(d), the Series A Preferred Stock shall be converted into or exchanged for and shall become preferred shares of such successor or resulting company or, at the Corporation's sole discretion, the parent of

such successor or resulting company, having in respect of such successor or resulting company or parent of such successor or resulting company, substantially the same powers, preferences and relative participating, optional or other special rights, and the qualifications, limitations or restrictions thereon, that the Series A Preferred Stock had immediately prior to such transaction, and with any additional preferences, rights or powers as may be determined by the Corporation that would not adversely affect the preferences, rights or powers of the Series A Preferred Stock.

Section 7. Limitation and Rights Upon Insolvency. Notwithstanding any other provision of this Certificate of Designations, the Corporation shall not be required to pay any dividend on, or to pay any amount in respect to any redemption of, the Series A Preferred Stock at a time when immediately after making such payment the Corporation is or would be rendered insolvent (as defined by applicable law), *provided*, that the obligation of the Corporation to make any such payment shall not be extinguished in the event the foregoing limitation applies.

Section 8. Shares to be Retired. Any share of Series A Preferred Stock redeemed, exchanged or otherwise acquired by the Corporation shall be retired and canceled and shall upon cancellation be restored to the status of authorized but unissued shares of preferred stock, subject to reissuance by the Board of Directors as Series A Preferred Stock or as shares of preferred stock of one or more other series.

Section 9. Record Holders. The Corporation and the Transfer Agent, if any, may deem and treat the record holder of any shares of Series A Preferred Stock as the true and lawful owner thereof for all purposes, and neither the Corporation nor the Transfer Agent, if any, shall be affected by any notice to the contrary.

Section 10. Transfer Restrictions. Prior to the one-year anniversary date of the Issue Date, a holder of Series A Preferred Stock may not effect any offer, sale, pledge, transfer or other disposition or distribution (or enter into any agreement with respect to any of the foregoing) of Series A Preferred Stock without the prior written consent of the Corporation.

Section 11. Legends.

(a) Prior to the one-year anniversary date of the Issue Date, any certificate representing shares of Series A Preferred Stock shall bear the following legend:

THE SHARES OF SERIES A PREFERRED STOCK, PAR VALUE \$.01 PER SHARE, OF THE NASDAQ STOCK MARKET, INC. REPRESENTED BY THIS CERTIFICATE MAY NOT BE OFFERED, SOLD OR TRANSFERRED BY THE HOLDER HEREOF PRIOR TO MARCH 8, 2003 WITHOUT THE PRIOR WRITTEN CONSENT OF THE NASDAQ STOCK MARKET, INC.

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Subsequent to the one-year anniversary date of the Issue Date, the Corporation agrees, from time to time and at the request of a holder, to issue replacement certificates representing such holder's shares of Series A Preferred Stock that do not bear the legend contained in Section 11(a).

(b) Until no longer required by applicable law, any certificate representing shares of Series A Preferred Stock shall bear the following legend:

THE SHARES OF SERIES A PREFERRED STOCK, PAR VALUE \$.01 PER SHARE, OF THE NASDAQ STOCK MARKET, INC. REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR UNDER THE SECURITIES LAWS OF ANY STATE OR FOREIGN JURISDICTION AND MAY NOT BE OFFERED, SOLD OR TRANSFERRED WITHOUT COMPLIANCE WITH APPLICABLE FEDERAL, STATE OR FOREIGN SECURITIES LAWS.

Subsequent to registration of the Series A Preferred Stock pursuant to the Securities Act, the Corporation agrees, from time to time and upon request of a holder, to issue replacement certificates representing such holder's shares of Series A Preferred Stock that do not bear the legend contained in Section 11(b).

Section 12. Notices. Except as may otherwise be provided for herein, all notices referred to herein shall be in writing, and all notices hereunder shall be deemed to have been given upon the earlier of (a) receipt of such notice, (b) three Business Days after the mailing of such notice if sent by registered mail (unless first-class mail shall be specifically permitted for such notice under the terms hereof) or (c) the Business Day following the date such notice was sent by overnight courier, in any case with postage or delivery charges prepaid, addressed: if to the Corporation, to its offices at One Liberty Plaza, New York, New York 10006, Attention: General Counsel, or to an agent of the Corporation designated as permitted by the Certificate of Incorporation, or, if to any holder of the Series A Preferred Stock, to such holder at the address of such holder of the Series A Preferred Stock as listed in the stock record books of the Corporation, or as the holder shall have designated by written notice similarly given by the holder and received by the Corporation.

Section 13. Other Rights. Other than as may be prescribed by law, the holders of the Series A Preferred Stock shall not have any other voting rights, conversion rights, preferences or special rights.

Schedule A

1. Nasdaq Tools, Inc.
2. Nasdaq Global Holdings
3. Nasdaq Global Technology, Ltd.
4. Nasdaq International Ltd.
5. Nasdaq Ltda
6. Nasdaq Europe Planning Company Ltd.
7. Nasdaq Japan, Inc.
8. Nasdaq Europe S.A./N.V.
9. IndigoMarkets Ltd.
10. IndigoMarkets India Private Ltd.
11. Nasdaq Financial Products Services, Inc.
12. Nasdaq International Market Initiatives, Inc.
13. Nasdaq Canada, Inc.

- 14. Nasdaq Educational Foundation Inc.
- 15. Nasdaq-BIOS R&D Joint Venture

ANNEX B

Section 1. Designation and Amount. The series of preferred stock created hereby shall be designated "Series B Preferred Stock," par value \$.01 per share (hereinafter called the "Series B Preferred Stock") and the number of shares constituting such series shall be one.

Section 2. Dividends. The holder of the Series B Preferred Stock shall not be entitled to receive dividends.

Section 3. Preference on Liquidation.

(a) In the event of the Liquidation (as defined below) of the Corporation, the holder of the Series B Preferred Stock shall be entitled to have paid to it out of the assets of the Corporation available for distribution to stockholders before any distribution is made to or set apart for the holders of shares of the Corporation's Common Stock, par value \$.01 per share (the "Common Stock"), or other Junior Securities (as defined below), an amount in cash equal to \$1.00 per share (the "Series B Preferred Stock Liquidation Preference").

(b) In the event of a Liquidation, the Corporation shall give, by certified mail, return receipt requested, postage prepaid, addressed to the holder of the share of Series B Preferred Stock at the address of such holder as shown on the books of the Corporation, at least 20 days prior written notice of the date on which the books of the Corporation shall close or a record shall be taken for determining rights to vote in respect of any such Liquidation and of the date when the same shall take place.

(c) As used in this Certificate of Designations, the term "Junior Securities" means any class or series of stock or equity securities of the Corporation that by its terms is junior to the Series B Preferred Stock as to the distribution of assets upon Liquidation.

(d) As used in this Certificate of Designations, the term "Liquidation" shall be deemed to include any liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary. For the avoidance of doubt, "Liquidation" shall not be deemed to include (i) a consolidation or merger of the Corporation into or with any other entity or entities, (ii) a transaction or series of related transactions that results in the transfer of more than 50% of the voting power of the Corporation and (iii) unless in connection with a plan of liquidation, dissolution or winding up of the Corporation, the sale, lease, abandonment, transfer or other disposition by the Corporation of all or substantially all its assets.

Section 4. Voting. The holder of the share of Series B Preferred Stock shall have the following voting rights:

(a) The holder of the share of Series B Preferred Stock shall be entitled to vote on all matters submitted to a vote of the stockholders of the Corporation, voting together with the holders of the Common Stock (and of any other shares of capital stock of the Corporation entitled to vote at a meeting of stockholders) as one class, except in cases where a separate or additional vote or consent of the holders of any class or series of capital stock or other equity securities of the Corporation shall be required by the Certificate of Incorporation, including, without limitation, Section 4(c) hereof, or by applicable law, in which case the requirement for any such separate or additional vote or consent shall apply in addition to the single class vote or consent otherwise required by this paragraph.

(b) As of each record date for the determination of the Corporation's stockholders entitled to vote on any matter (a "Record Date"), the share of Series B Preferred Stock shall have voting rights and powers equal to the number of votes that, together with all other votes entitled to be cast by the holder of the share of Series B Preferred Stock on such Record Date, whether by virtue of beneficial ownership of capital stock of the Corporation, proxies, voting trusts or

otherwise, entitle the holder of the share of Series B Preferred Stock to exercise one vote more than one-half of all votes entitled to be cast as of such Record Date by all holders of capital stock of the Corporation.

(c) Without the written consent of the holder of the share of Series B Preferred Stock at a meeting of the holder of the Series B Preferred Stock called for such purpose, the Corporation will not amend, alter or repeal any provision of the Certificate of Incorporation (by merger or otherwise) so as to adversely affect the preferences, rights or powers of the Series B Preferred Stock.

(d) Upon the Corporation becoming registered with the U.S. Securities and Exchange Commission as a national securities exchange ("Exchange Registration"), the rights of the holder of the Series B Preferred Stock pursuant to this Section 4 shall immediately terminate and the holder of the Series B Preferred Stock shall thereafter have no voting rights, except as otherwise required by applicable law.

Section 5. Redemption.

(a) Upon Exchange Registration, to the extent the Corporation shall have funds legally available for such payment, the Corporation shall promptly redeem the share of Series B Preferred Stock at a redemption price per share in cash equal to the Series B Preferred Stock Liquidation Preference (the "Redemption Price").

(b) If the Corporation shall redeem the share of Series B Preferred Stock pursuant to this Section 5, notice of such redemption shall be given by certified mail, return receipt requested, postage prepaid, mailed not less than two days nor more than 45 days prior to the redemption date, to the holder of record of the share to be redeemed at such holder's address as the same appears on the stock books of the transfer agent for the Corporation (the "Transfer Agent"). Any notice that was mailed in the manner herein provided shall be conclusively presumed to have been duly given on the date mailed whether or

not the holder receives the notice. Each such notice shall state: (i) the redemption date; and (ii) the place or places where the certificate for such share is to be surrendered for payment of the Redemption Price.

(c) Upon surrender in accordance with notice given pursuant to this Section 5 of the certificate for the share of Series B Preferred Stock (properly endorsed or assigned for transfer, if the Board of Directors of the Corporation shall so require and the notice shall so state), such share shall be redeemed by the Corporation at the Redemption Price.

(d) If notice has been mailed as aforesaid, from and after the redemption date (unless default shall be made by the Corporation in providing for the payment of the Redemption Price of the shares called for redemption), (i) said share shall no longer be deemed to be outstanding, and (iii) all rights of the holder thereof as holder of the Series B Preferred Stock shall cease (except the right to receive from the Corporation the Redemption Price without interest thereon, upon surrender and endorsement of its certificates if so required).

Section 6. Merger or Consolidation. In the event of a merger or consolidation of the Corporation with or into any person pursuant to which the corporation shall not be the continuing person, the Series B Preferred Stock shall be converted into or exchanged for and shall become a preferred share of such successor or resulting company or, at the Corporation's sole discretion, the parent of such successor or resulting company, having in respect of such successor or resulting company or parent of such successor or resulting company, substantially the same powers, preferences and relative participating, optional or other special rights, and the qualifications, limitations or restrictions thereon, that the Series B Preferred Stock had immediately prior to such transaction and with any additional preferences, rights or powers as may be determined by the Corporation that would not adversely affect the preferences, rights or powers of the Series B Preferred Stock. For purposes of this Section 6,

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"person" means any natural person, corporation, general or limited partnership, limited liability company, joint venture, trust, association or entity of any kind.

Section 7. Limitation and Rights Upon Insolvency. Notwithstanding any other provision of this Certificate of Designations, the Corporation shall not be required to pay any amount in respect to any redemption of the Series B Preferred Stock at a time when immediately after making such payment the Corporation is or would be rendered insolvent (as defined by applicable law), provided that the obligation of the Corporation to make any such payment shall not be extinguished in the event the foregoing limitation applies.

Section 8. Share to be Retired. When the share of Series B Preferred Stock is redeemed, exchanged or otherwise acquired by the Corporation, it shall be retired and canceled and shall upon cancellation be restored to the status of authorized but unissued shares of preferred stock, subject to reissuance by the Board of Directors as Series B Preferred Stock or as shares of preferred stock of one or more other series.

Section 9. Record Holders. The Corporation and the Transfer Agent, if any, may deem and treat the record holder of the share of Series B Preferred Stock as the true and lawful owner thereof for all purposes, and neither the Corporation nor the Transfer Agent, if any, shall be affected by any notice to the contrary.

Section 10. Transfer Restrictions. The holder of Series B Preferred Stock may not effect any offer, sale, pledge, transfer or other disposition or distribution (or enter into any agreement with respect to any of the foregoing) of the share of Series B Preferred Stock.

Section 11. Legends. The certificate representing the share of Series B Preferred Stock shall bear the following legend:

THE SHARE OF SERIES B PREFERRED STOCK, PAR VALUE \$.01 PER SHARE, OF THE NASDAQ STOCK MARKET, INC.
REPRESENTED BY THIS CERTIFICATE MAY NOT BE OFFERED, SOLD OR TRANSFERRED BY THE HOLDER HEREOF.

Section 12. Notices. Except as may otherwise be provided for herein, all notices referred to herein shall be in writing, and all notices hereunder shall be deemed to have been given upon the earlier of (a) receipt of such notice, (b) three Business Days (as defined below) after the mailing of such notice if sent by registered mail (unless first-class mail shall be specifically permitted for such notice under the terms hereof) or (c) the Business Day following the date such notice was sent by overnight courier, in any case with postage or delivery charges prepaid, addressed: if to the Corporation, to its offices at One Liberty Plaza, New York, New York 10006, Attention: General Counsel, or to an agent of the Corporation designated as permitted by the Certificate of Incorporation, or, if to the holder of the Series B Preferred Stock, to such holder at the address of such holder of the Series B Preferred Stock as listed in the stock record books of the Corporation, or as the holder shall have designated by written notice similarly given by the holder and received by the Corporation. "Business Day" shall mean any day other than a Saturday, Sunday or a day on which state or federally chartered banking institutions in New York, New York are not required to be open.

Section 13. Other Rights. Other than as may be prescribed by law, the holders of the Series B Preferred Stock shall not have any other voting rights, conversion rights, preferences or special rights.

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[RESTATED CERTIFICATE OF INCORPORATION OF THE NASDAQ STOCK MARKET, INC.](#)

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[Schedule A](#)

[ANNEX B](#)

[COMPANY LOGO]

SEPARATION AND GENERAL RELEASE AGREEMENT

July 23, 2003

John L. Hilley
301 Springvale Road
Great Falls, VA 22066

Dear John:

This Separation and General Release Agreement ("Letter Agreement") reflects our mutual agreements and understandings concerning your separation from employment as Executive Vice President with The NASDAQ Stock Market, Inc. ("NASDAQ") effective as of July 31, 2003 ("Termination Date") in accordance with the terms your employment agreement with NASDAQ, dated as of December 29, 2000, as amended as of February 1, 2002 (collectively, the "Employment Agreement"). Terms used but not defined in this Letter Agreement shall have the meanings given them in the Employment Agreement.

I. Separation Amounts

You hereby agree and acknowledge that the following amounts that NASDAQ will pay you and benefits you will receive are in full satisfaction of any and all amounts and benefits due you under the Employment Agreement as a result of your termination of employment with NASDAQ.

A. Severance Pay

1. NASDAQ will pay you an aggregate of \$2,400,000.00 in Annual Salary and Incentive Compensation (collectively, "Severance Pay") as calculated under Section 8(c) of the Employment Agreement for the 24-month period from the Termination Date defined as the Severance Period. You will receive the Severance Pay in the form of a lump sum distribution within 30 days of the Termination Date. You will not accrue or be entitled to any additional Incentive Compensation under the Corporate Incentive Program or otherwise.
1. NASDAQ will also pay you the sum of \$70,252.09 and \$31,489.35 (aggregate amount of \$101,741.44) (the "Prorated Amount"), representing the prorated portion of the \$90,000.00 and \$140,000.00 retained from your Incentive Compensation in 2002 and 2003, respectively, pursuant to the Retention Component of the Corporate Incentive Program, including interest accrued thereon. The Prorated Amount paid pursuant to this paragraph I.A.2. will be made in the form of a lump sum distribution to be paid within 30 days of the Termination Date.

B. Health Benefits Continuation and Vacation Payout

1. Your group medical and dental benefits, if any, will terminate on the first to occur of (1) the date on which you notify NASDAQ's Human Resources Department in writing at 9513 Key West Avenue, Rockville, MD 20850 that you wish to terminate such benefits, or (2) the end of your Severance Period. You will be separately notified of your conversion privileges and "COBRA" rights when your health and dental benefits terminate. Benefit coverage for your spouse and/or children, if any, will remain unaffected if you die during the Severance Period and they had coverage at the time of your death. In such a case, their coverage will continue until the end of the Severance Period. Your share of the costs of these benefits will be the same as that of an active employee and thus may change during the Severance Period due to

premium changes and the normal "open enrollment" benefit selection process. In addition, the coverage afforded under these benefits will be the same as that of an active employee and thus is subject to change, modification, or elimination during the Severance Period. You agree to provide monthly payments in advance to NASDAQ for your share of the costs of these benefits as calculated by NASDAQ. You agree that such advance monthly payments by you are a condition to continuation of your medical and dental benefits pursuant to this paragraph I.B.1.

2. You will be paid the value of your accrued, unused vacation leave as of the Termination Date and will not accrue any additional leave of any kind. You will receive payment for the value of this leave at the same time as you receive your Severance Pay.

II. Termination of Certain Benefits

You further acknowledge and agree that the following benefits will terminate as set forth below.

- A. Your participation in The NASDAQ Stock Market, Inc. 401(k) Savings Plan (the "401(k) Plan") will end on the Termination Date. Your participation in the NASD Employees Retirement Plan (the "Pension Plan") and the NASD's Supplemental Executive Retirement Plan (the "SERP" and with the 401(k) Plan and Pension Plan, the "Plans") will also end on the Termination Date. Any vested plan benefits under any of the Plans will be disbursed as you may direct provided that such direction comports with applicable law and the requirements of the Plans, as such

requirements may have been modified by the Employment Agreement. Accordingly, the amount and timing of the payment of your benefits under the 401(k) Plan, the Pension Plan and/or the SERP will be determined under the terms of such plan documents and the Employment Agreement, as applicable. Please refer to the Employment Agreement and the Summary Plan Descriptions related to the Plans that you have previously received for more details.

- B. Your participation in the Flexible Spending Accounts, if any, will end on the Termination Date.
- C. Your participation, if any, in The NASDAQ Stock Market, Inc. Employee Stock Purchase Plan ("ESPP") will terminate on the Termination Date and dollars contributed during the current offering period through the Termination Date will be refunded to you within 45 days of the Termination Date.
- D. Any stock options or other stock based awards granted to you under the NASDAQ Equity Incentive Plan shall be governed by the terms of such plan, and the applicable award agreement entered into by and between you and NASDAQ.
- E. Except as may be otherwise provided in the Employment Agreement, your participation in any other benefits other than those stated in paragraph I. and II. above will end on the Termination Date.

III. General Release, Confidentiality and Miscellaneous Provisions

In acknowledgement of the additional and valuable consideration set forth in paragraph III.A. below, which both parties hereby acknowledge the sufficiency of, you agree to the General Release and Confidentiality provisions of this paragraph III. The term "NASDAQ", when used in this Letter Agreement is understood to include the National Association of Securities Dealers, Inc. ("NASD"), as well as any other subsidiaries or affiliates of The NASDAQ Stock Market, Inc.

- A. Following the Effective Date (as defined below), you will be eligible for (a) professional out-placement assistance at NASDAQ's expense (which consists of outplacement services and individual career counseling) and (b) the Executive Financial Planning Services Program

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(which offers you services such as estate and gift planning, income tax planning and tax preparation, insurance planning, capital accumulation and investment planning, and retirement planning); your eligibility to participate in (a) above will terminate on the earlier to occur of: (1) the date on which you commence other regular, full-time employment or become self-employed on a regular, full-time basis or (2) 12 months from the Termination Date; your eligibility to participate in (b) above is limited to a total expenditure of \$12,000 for calendar year 2003 (including any such expenditures incurred prior to the Termination Date) and will terminate on December 31, 2003. Your eligibility for these benefits begins upon your execution of this Letter Agreement. Please contact the Human Resources Department to arrange for the commencement of these benefits.

- B. You agree to return all NASDAQ property to NASDAQ. This includes (i) all documents, data, materials, details, and copies thereof in any form (electronic or hard copy) that are the property of NASDAQ or were created using NASDAQ's resources or during any hours worked for NASDAQ and (ii) all other NASDAQ property including, without limitation, all computer equipment, and associated passwords, property passes, keys, hardware keys, credit cards, and identification badges.
- C. You agree to cooperate with NASDAQ and to provide all information that NASDAQ may hereafter reasonably request with respect to any matter involving your present or former relationship with NASDAQ, the work you have performed, or present or former employees or clients of NASDAQ so long as such requests do not unreasonably interfere with any other job or important personal activity in which you are engaged. NASDAQ agrees to reimburse you for all reasonable out-of-pocket costs you incur in connection therewith.
- D. You understand and agree that the terms and conditions of this Letter Agreement shall be kept confidential by you. You may, however, disclose the terms and conditions of this Letter Agreement to your spouse, immediate family members, attorney, and/or tax and financial advisors or pursuant to court order or subpoena. You agree to notify the NASDAQ Office of General Counsel at 1801 K Street, N.W., Washington, D.C. 20006, as soon as practical after your receipt of such a court order or subpoena. NASDAQ agrees to keep the terms and conditions of this Letter Agreement confidential, but reserves the right to reveal the terms of the Letter Agreement to certain members of management and its accounting, payroll, and legal staffs on a need-to-know basis, or as may be otherwise required by law, including without limitation, applicable securities laws.
- E. You agree that nothing in this Letter Agreement limits your obligations under Section 9 of the Employment Agreement and that any provisions of this paragraph III. of the Letter Agreement are in addition to and not in lieu of Section 9 of the Employment Agreement. Nothing in this Letter Agreement shall limit NASDAQ's rights and remedies in the event of a breach of the Employment Agreement.
- F. If you materially breach or threaten to materially breach this Letter Agreement (a "Breach"), you acknowledge that NASDAQ's obligation to provide the benefits referred to in paragraph III.A. above shall immediately cease, and that NASDAQ in addition shall have all other rights or remedies provided in law or in equity by reason of your Breach. You specifically agree and acknowledge that NASDAQ, after affording you reasonable, written notice of the Breach and of the reasonable opportunity to cure, has the right to cease performing its obligations under this Letter Agreement in advance of any termination of a Breach by a court of competent jurisdiction. If NASDAQ ceases performing its obligations due to such Breach and a court of competent jurisdiction later determines that such action was without right, NASDAQ agrees to pay you all monies thus withheld plus simple interest at the prime rate in effect at the time the payments ceased and your reasonable costs and

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expenses incurred in such action (including attorney fees) and you agree to accept this as your exclusive remedy therefore. If NASDAQ ceases performing its obligations due to such Breach or threatened Breach and a court of competent jurisdiction later determines that a Breach occurred and that such action was thus appropriate and permitted, you agree to pay, in addition to such other costs as the court may direct, all of NASDAQ's reasonable costs and expenses, including attorney's fees, unless prohibited by applicable law or regulation.

G.

The law of the State of New York shall govern this Letter Agreement without giving effect to its conflict of law principles. Should a court of competent jurisdiction find that any provision of this Letter Agreement is void, voidable, illegal, or unenforceable, no other provision shall be affected thereby and the balance shall be interpreted in a manner that gives effect to the intent of the parties. The parties agree that the normal rule of construction that holds that all ambiguities are construed against the drafting party will not apply to the interpretation of this Letter Agreement.

- H. You and NASDAQ acknowledge that the headings in the Letter Agreement are for convenience only and have no bearing on the meaning of this Letter Agreement.
- I. You understand and acknowledge that NASDAQ is under no obligation to hire you in the future. You further acknowledge that you will not be entitled to any special consideration should you apply for employment with NASDAQ in the future and that any such application will be considered in the same manner and under the same procedures as any other external application.
- J. You acknowledge that NASDAQ has advised you to consult an attorney, at your expense, with regard to this Letter Agreement. You have 45 days from your receipt of this Agreement and its waiver and release provisions to accept and sign it, although you may do it sooner. You will have seven (7) days to revoke your acceptance of this Agreement and its waiver and release provisions after signing it, with the eighth day following execution referred to as the "Effective Date." You agree to send notice of such revocation by certified mail to the attention, Human Resources, The NASDAQ Stock Market, Inc. 9513 Key West Avenue, Rockville, Maryland 20850.
- K. You agree that all required federal, state, local, and social security taxes will be withheld from the amounts payable to you pursuant to this Letter Agreement.
- L. Employee Release

In consideration of the benefits referred to in paragraph III.A. above and other benefits offered to me by NASDAQ (and not the payment of an incentive compensation award, if any), I hereby accept this separation package and thereby release, discharge, and agree to hold harmless NASDAQ, its predecessors, successors, subsidiaries, affiliates, employees, officers, parent, shareholders, employee benefit plans, Plan Administrators, trusts, trustees, Boards of Governors, members of any Boards of Governors, any Board of Directors, members of any Boards of Directors, heirs, successors, and assigns (hereinafter referred to in this paragraph III.L. as "NASDAQ"), from all claims, liabilities, demands, and causes of action at law or equity, known or unknown, fixed or contingent, which I have, may have, will have, or claim to have against NASDAQ as a result of my employment and/or this separation and the conclusion of my employment with NASDAQ at any time up to and including the date of the execution of this Letter Agreement, excluding all claims that arise out of an asserted breach of this Letter Agreement (the "Excluded Claims"). This includes, but is not limited to, claims arising under federal, state, or local laws prohibiting employment discrimination, including Title VII of the Civil Rights Act of 1964, as amended, the Age Discrimination in Employment Act, as amended (including the Older Workers Benefit Protection Act), the Employment Retirement Income Security Act of 1974, as amended, the Equal Pay Act, the District of Columbia Human Rights Act, as amended, the

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Maryland Human Relations Act, the New York Executive Law, as amended, the New York City Administrative Code, as amended, claims growing out of any legal restrictions on an employer's right to terminate its employees in any jurisdiction, such as claims for wrongful or constructive discharge, breach of any express or implied contract, and/or any claims on any basis whatsoever regarding my status, pay, position, or title while employed by NASDAQ. Excluded from this Letter Agreement are claims which cannot be lawfully waived, including the right to file an administrative charge of discrimination with federal or state agencies. I am, however, waiving all rights to monetary recovery in connection with any such charge. Notwithstanding the foregoing, I retain my rights, if any, to seek indemnification from NASDAQ for costs incurred by me as a result of any liability imposed in connection with my service as an employee and officer of NASDAQ and/or its affiliates.

I specifically promise not to sue NASDAQ in any forum for any of the above-mentioned claims, except that I may bring a lawsuit to challenge the validity of this Letter Agreement under the Age Discrimination in Employment Act ("ADEA") and any actions related to Excluded Claims and any claims for indemnification referred to in the final sentence of the preceding paragraph. If I violate this covenant, I will be required to pay NASDAQ's defense costs, including its reasonable fees; alternatively, at NASDAQ's option, NASDAQ's remaining obligations to pay severance money and/or benefits under this Letter Agreement shall cease, and I will be required to repay to NASDAQ upon demand all but \$100.00 (one hundred dollars) of the severance pay and other benefits I received under this Letter Agreement. The above payment/repayment provisions do not apply in the event I sue NASDAQ under the ADEA.

By signing below, I, John L. Hilley, certify that I have read, carefully reviewed, fully understand, and agree to all the provisions of this Letter Agreement, which sets forth the entire agreement and understanding between NASDAQ and me. I acknowledge that I have not relied upon any representation or statement, written or oral, not set forth in this document.

For NASDAQ:

/s/ THOMAS CARDY

Date: 7/23/2003

/s/ JOHN L. HILLEY

John L. Hilley

Date: July 23, 2003

cc: NASDAQ Human Resources
NASDAQ Office of General Counsel

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[Exhibit 10.1](#)

[SEPARATION AND GENERAL RELEASE AGREEMENT](#)

CERTIFICATIONS

I, Robert Greifeld, certify that:

1. I have reviewed this Form 10-Q of The Nasdaq Stock Market, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2003

/s/ ROBERT GREIFELD

Robert Greifeld

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[Exhibit 31.1](#)

[CERTIFICATIONS](#)

CERTIFICATION

I, David P. Warren, certify that:

1. I have reviewed this Form 10-Q of The Nasdaq Stock Market, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2003

/s/ DAVID P. WARREN

David P. Warren

QuickLinks

[Exhibit 31.2](#)

[CERTIFICATION](#)

**Certification of CEO and CFO Pursuant to
18 U.S.C. Section 1350
as Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report on Form 10-Q of The Nasdaq Stock Market, Inc. (the "Company") for the quarterly period ending June 30, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Robert Greifeld, as President and Chief Executive Officer of the Company and David P. Warren, as Executive Vice President and Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly represents, in all material respects, the financial condition and results of the operations of the Company.

/s/ ROBERT GREIFELD

Name: Robert Greifeld
Title: President and Chief Executive Officer
Date: November 14, 2003

/s/ DAVID P. WARREN

Name: David P. Warren
Title: Executive Vice President and Chief Financial Officer
Date: November 14, 2003

This certification accompanies the Report pursuant to § 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of § 18 of the Securities Exchange Act of 1934, as amended.

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[Exhibit 32.1](#)

[Certification of CEO and CFO Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002](#)