

BRUT, LLC
(S.E.C. I.D. No. 8-37329)

CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTAL SCHEDULES
FOR THE YEAR ENDED DECEMBER 31, 2004
AND
INDEPENDENT AUDITORS' REPORT
AND
SUPPLEMENTAL REPORT ON INTERNAL CONTROL

This report is deemed CONFIDENTIAL in accordance with Rule 17a-5(e)(3) under the Securities Exchange Act of 1934. A consolidated statement of financial condition and supplemental report on internal control, bound separately, has been filed simultaneously herewith as a Public Document.

BRUT, LLC

CONSOLIDATED STATEMENT OF FINANCIAL CONDITION DECEMBER 31, 2004

ASSETS

Cash and cash equivalents	\$ 33,486,859
Deposit with clearing organizations	510,000
Deposit with clearing broker	1,534,548
Receivables from brokers and dealers, net of allowance for doubtful accounts of \$1,445,692	19,943,087
Receivables from affiliates	534,547
Goodwill	141,380,819
Intangible assets, net of amortization of \$1,600,556	40,404,444
Furniture and equipment, net of accumulated depreciation of \$4,521,456	2,316,528
Other assets	<u>980,793</u>
TOTAL ASSETS	<u>\$ 241,091,625</u>

LIABILITIES AND MEMBERS' EQUITY

Clearance and execution fees payable	\$ 5,789,899
Accrued compensation and benefit	3,561,524
Payable to affiliates	6,399,473
Accounts payable and accrued expenses	<u>10,470,923</u>
Total liabilities	26,221,819
MEMBERS' EQUITY	<u>214,869,806</u>
TOTAL LIABILITIES AND MEMBERS' EQUITY	<u>\$ 241,091,625</u>

See notes to consolidated financial statements.

BRUT, LLC

CONSOLIDATED STATEMENT OF OPERATIONS AND COMPREHENSIVE LOSS FOR THE YEAR ENDED DECEMBER 31, 2004

REVENUES:	
Transaction fees	\$ 180,984,425
Market data revenue	10,733,447
Interest	<u>193,758</u>
Total revenues	<u>191,911,630</u>
EXPENSES:	
Clearing and execution fees	175,295,448
Compensation and benefits	9,733,353
Systems and related support fees	1,807,291
Depreciation and amortization	3,636,033
Professional services	380,807
Other	<u>3,387,072</u>
Total expenses	<u>194,240,004</u>
LOSS BEFORE PROVISION FOR INCOME TAXES	(2,328,374)
PROVISION FOR INCOME TAXES	<u>(42,787)</u>
NET LOSS	(2,371,161)
OTHER COMPREHENSIVE INCOME—	
Foreign currency translation adjustment	<u>50,681</u>
COMPREHENSIVE LOSS	<u>\$ (2,320,480)</u>

See notes to consolidated financial statements.

BRUT, LLC

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2004

CASH FLOWS FROM OPERATING ACTIVITIES:

Net loss	\$ (2,371,161)
Adjustments to reconcile net loss to net cash provided by operating activities-	
Depreciation and amortization	3,636,033
(Increase) decrease in operating assets:	
Cash deposited with clearing organizations	2,870,222
Deposit with clearing broker	2,112
Receivable from brokers and dealers, net	(5,575,751)
Receivables from affiliates	165,352
Market data receivable	1,734,269
Other assets	(740,287)
Increase (decrease) in operating liabilities:	
Bank overdrafts	(1,102,043)
Clearance and execution fees payable	(210,188)
Accrued compensation and benefits	1,158,524
Payables to affiliates	5,338,775
Accounts payable and accrued expenses	<u>6,153,939</u>
Net cash provided by operating activities	<u>11,059,796</u>

CASH FLOWS FROM INVESTING ACTIVITIES-

Purchases of furniture and equipment	<u>(1,031,716)</u>
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CASH FLOWS FINANCING ACTIVITIES:

Capital contribution from Nasdaq	5,000,000
Other comprehensive income	<u>50,681</u>
Net cash provided by financing activities	<u>5,050,681</u>

NET INCREASE IN CASH AND CASH EQUIVALENTS 15,078,761

CASH AND CASH EQUIVALENTS—Beginning of year 18,408,098

CASH AND CASH EQUIVALENTS—End of year \$ 33,486,859

Non-cash investing and financing activities-

Impact of goodwill and intangible assets from acquisition by Nasdaq \$ 183,380,819

See notes to consolidated financial statements.

BRUT, LLC

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY FOR THE YEAR ENDED DECEMBER 31, 2004

BALANCE—December 31, 2003	\$ 31,369,173
Net loss	(2,371,161)
Foreign currency translation adjustment	50,681
Recapitalization due to acquisition by Nasdaq	180,821,113
Capital contributions from Nasdaq	<u>5,000,000</u>
BALANCE—December 31, 2004	<u>\$ 214,869,806</u>

See notes to consolidated financial statements.

BRUT, LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2004

1. ORGANIZATION AND DESCRIPTION OF THE BUSINESS

Brut, LLC, a Delaware limited liability company, was formerly a wholly-owned subsidiary of SunGard Data Systems, Inc. ("SunGard"), prior to its acquisition by The Nasdaq Stock Market, Inc. ("Nasdaq"), on September 7, 2004 (see Note 3). Brut, LLC is a registered broker-dealer and operator of The BRUT ECN System (the "System"), an electronic communications network ("ECN") that allows its subscribers to enter orders for display, view and execution against the orders entered by other subscribers, view the trading interest of other market participants, and route orders through the System to trade with said participants. Subscribers primarily use the System for transaction activity in securities traded on the Nasdaq Stock Market, although the System also offers similar capabilities with respect to securities traded on the New York Stock Exchange and American Stock Exchanges. Brut Europe Limited, a wholly owned, inactive subsidiary of Brut, LLC, is an introducing broker-dealer which was set up to generate a European subscriber base to the System. Brut, LLC and its subsidiary, Brut Europe Limited, are collectively referred to herein as the "Company".

The Company charges transaction fees to subscribers and other market participants that execute transactions against System orders, or for subscriber orders which route through the System for execution against other market participants. Transaction fees are determined on a per share basis and are billed monthly, net of any rebates. Brut, Inc., a Delaware corporation with a 1% ownership interest in the Company, is the Manager of the Company pursuant to an Operating Agreement. The Company clears and settles all trading activities that take place on the System except for institutional trades and DOT-processed listed securities.

The Company participates, through Nasdaq in the Unlisted Trading Privilege ("UTP") plan, which is a joint program between and among Nasdaq and all regional stock exchanges. Under the plan, the revenue collected from the sale of quote and trade information to market data vendors is distributed to plan members based on the amount of market data contributed by each member.

2. SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Brut, LLC and its wholly-owned subsidiary. All significant intercompany accounts and transactions have been eliminated in consolidation.

FINANCIAL STATEMENT PREPARATION

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts and the disclosure of contingent amounts in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash in banks and investments in money market funds. Such equivalent investments included in cash and cash equivalents in the consolidated statement of financial condition were \$32,383,144 at December 31, 2004. Cash equivalents are carried at cost plus accrued interest, which approximates fair value due to the short maturities of these instruments.

RECEIVABLES FROM BROKERS AND DEALERS

Receivables are concentrated with National Association of Securities Dealers ("NASD") member firms and market data vendors. Receivables are shown net of reserves for uncollectible accounts. Reserves are calculated based on the age and source of the underlying receivable and are tied to past collections experience. The reserve for bad debts is maintained at a level that management believes to be sufficient to absorb estimated losses in the accounts receivable portfolio. The amount charged against operating results is based on several factors, including a continuous assessment of the collectibility of each account. The total reserve for uncollectible accounts against receivables in the consolidated statement of financial condition was \$1,445,692 at December 31, 2004.

FURNITURE AND EQUIPMENT, NET

Furniture and equipment, net, are carried at cost less accumulated depreciation. Depreciation is generally recognized over the estimated useful lives of the related assets. Estimated useful lives generally range from two and one-half to five years for furniture and equipment. Depreciation is computed using the straight-line method. Depreciation expense for furniture and equipment was \$2,035,477 for the year ended December 31, 2004.

GOODWILL

Goodwill represents the excess of purchase price and related costs over the value assigned to the net tangible and identifiable intangible assets of a business acquired. According to Statement of Financial Accounting Standards ("SFAS") 142, "Goodwill and Other Intangible Assets", goodwill is subject to an annual impairment test. An impairment is deemed to exist if the carrying value of a reporting unit exceeds its estimated fair value.

INTANGIBLE ASSETS, NET

Intangible assets, net, which primarily include a technology software license and customer relationships, are amortized on a straight-line basis over their estimated useful life of 10 years.

REVENUES

Transaction Fees—Transaction fees from securities transactions are recorded on trade date. Included in transaction fees is \$176,470,775 for participant orders which were routed through the System for execution against other markets participants. The execution charges from other market participants are recorded in clearance and execution fees and approximated fees earned for the year ended December 31, 2004. Also included in transaction fees is \$4,513,650 from institutional investors which are shown net of repatriated commissions to Sponsoring Broker-Dealers. Sponsoring Broker-Dealers are identified by the relevant institutional investor as the broker-dealer sponsor of identified transaction activity.

Pursuant to EITF Issue No. 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent," ("EITF 99-19") execution revenues from transactions executed through the Company are recorded on a gross basis in revenues and expenses. Liquidity rebate payments are recorded in clearance and execution fees in the consolidated statement of operations and other comprehensive loss as the Company acts as principal.

Market Data Revenue—Market data revenue are recorded as earned. Revenue is based on both share and trade volumes.

INCOME TAXES

The Company is a limited liability company and, as such, is not subject to federal or state income taxes. All items of taxable income and all income tax deductions flow through to the holders of member shares, in proportion to their ownership interest. Limited liability companies are, however, subject to New York City Unincorporated Business Taxes.

3. ACQUISITION BY NASDAQ

On September 7, 2004, Nasdaq completed its acquisition of the Company from SunGard for total consideration of \$190,000,000 in cash, subject to certain post-closing adjustments, including a working capital adjustment yet to be finalized.

The acquisition was accounted for under SFAS 141, "Business Combinations" as a purchase and accordingly goodwill and intangible assets of \$141,380,819 and \$42,000,000 were recorded, respectively. The fair value of the identifiable intangible assets acquired was based upon an independent valuation model. The fair value of certain assets and liabilities of the Company are still being finalized so the allocation of the purchase price is subject to refinement.

As part of the acquisition of the Company by Nasdaq, all intercompany receivables and payables with SunGard and its affiliates were forgiven.

The integration of Brut's services into Nasdaq is designed to be seamless to both Nasdaq and Brut customers. Brut continues to operate under the Brut name as a broker-dealer; however, it will operate as part of Nasdaq.

4. RELATED PARTY TRANSACTIONS

The Company receives Revenue Sharing under the UTP plan and Liquidity Provider Rebate income from Nasdaq for participation in the exchange operations. The combined revenues related to Revenue Sharing under the UTP plan and Liquidity Provider Rebate for the period September 7, 2004 through December 31, 2004 were \$4,229,317 and are included in market data revenue in the consolidated statement of operations and other comprehensive loss.

The Company pays Nasdaq for clearing charges it incurs on their system. These expenses for the period September 7, 2004 through December 31, 2004 were \$3,778,423 and are included in clearance and execution fees in the consolidated statement of operations and comprehensive loss.

The Company accrues a liability with Nasdaq for invoices paid on its behalf, and records a receivable for payments deposited in Nasdaq for the Company's receivables. The net receivable or payable from this activity is periodically settled. The net liability from this activity as of December 31, 2004 was \$6,402,973 and is included in Payables from related parties in the consolidated statement of financial condition.

Included in the consolidated statement of operations and comprehensive loss are expenses paid to SunGard and its affiliates prior to the Company's acquisition by Nasdaq on September 7, 2004. Included in systems and related support fees is \$870,059 for the utilization and development of the System, included in clearance and execution fees is \$7,019,358 for the utilization of the Phase3 clearance system, services related to trade reporting to the Cincinnati and Boston Stock Exchanges and

transaction fees, and in other expenses is \$1,544,540 related to certain general and administrative expenses.

In addition, for the period January 1, 2004 through September 6, 2004, the Company purchased computer equipment from various SunGard affiliates for \$100,938.

5. GOODWILL AND INTANGIBLE ASSETS

At December 31, 2004, the Company had goodwill of \$141,380,819 related to its acquisition by Nasdaq.

The following table summarizes the Company's intangible assets as of December 31, 2004:

	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>
Technology	\$ 15,700,000	\$ (665,667)
Customer relationships	26,300,000	(934,889)
Other	<u>5,000</u>	<u>—</u>
	<u>\$ 42,005,000</u>	<u>\$ (1,600,556)</u>

Both the technology and customer relationships intangible assets are being amortized over a ten-year estimated useful life ending 2014. Total pre-tax amortization expense for the year ended December 31, 2004 was \$1,600,556.

Annual pre-tax amortization expense for intangible assets for the five years ended December 31, 2009 is estimated to be as follows:

<u>Year</u>	<u>Amount</u>
2005	\$ 4,773,000
2006	4,325,667
2007	4,236,778
2008	4,059,000
2009	4,059,000

6. ACCUMULATED OTHER COMPREHENSIVE INCOME

Accumulated other comprehensive income represents cumulative gains that are not reflected in earnings. The components of accumulated other comprehensive income are as follows:

Balance—December 31, 2003	\$ 122,558
Foreign currency translation adjustment	<u>50,681</u>
Balance—December 31, 2004	<u>\$ 173,239</u>

NET CAPITAL REQUIREMENTS AND MEMBERS' EQUITY

The Company is subject to the Securities and Exchange Commission's Uniform Net Capital Rule (the "Rule"), which requires the maintenance of minimum net capital. The Company has elected to use the

basic method permitted by the Rule, which requires that the Company maintain minimum net capital equal to the greater of \$100,000 or 6 2/3% of aggregate indebtedness, as defined. The Rule also requires that aggregate indebtedness not exceed 15 times net capital. At December 31, 2004, the Company had net capital of \$8,111,745, which was \$6,363,625 in excess of its required net capital of \$1,748,120.

The Company has an agreement with its clearing broker that enables the Company to include certain assets as allowable assets in its Net Capital Computation.

In November 2004, the Company received a \$5,000,000 capital contribution from Nasdaq.

8. GUARANTEES, COMMITMENTS AND CONTINGENT LIABILITIES

Brut Agreements—The Company has contracted with a subsidiary of SunGard, SunGard Financial Systems Inc. (“SunGard Financial”), for SunGard Financial to provide the Company on-line processing, report services and related services in connection with the clearance of trades. The term of the agreement is five years and is automatically renewed at yearly intervals thereafter until terminated by the Company or SunGard Financial. The annual service fee is \$10,000,000 in the first year, dropping to \$8,000,000 in the second year and \$6,000,000 in the third year of the agreement. The annual service fee is subject to price review in years four and five based on market rates, but will not be less than \$4,000,000 per year. Some additional fees may be assessed based on services needed or requested.

The Company also contracted with SunGard to host certain software on designated equipment at a SunGard facility for a transitional period. SunGard developed and operated the computer software programs that enable the Company to operate and provide order entry and execution over its ECN. Under the terms of the original agreement, which began in September 2004 through May 2005, the Company was obligated to pay SunGard approximately \$109,200 per month. On November 29, 2004, an amendment was signed which extended the original agreement through June 30, 2006 and beginning November 30, 2005, the Company may cancel the agreement within 30 days written notice to SunGard.

Brokerage Activities— The Company provides guarantees to securities clearinghouses and exchanges under their standard membership agreements, which require members to guarantee the performance of other members. If a member becomes unable to satisfy its obligations to the clearinghouses, other members would be required to meet its shortfalls. To mitigate these performance risks, the exchanges and clearinghouses often require members to post collateral as well as meet certain minimum financial standards. The Company’s maximum potential liability under these arrangements cannot be quantified. However, management believes that the potential for the Company to be required to make payments under these arrangements is unlikely. Accordingly, no contingent liability is recorded in the consolidated statement of financial condition for these arrangements.

General Litigation— The Company may be subject to claims as well as reviews by self-regulatory agencies arising out of the conduct of its business. 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 the Company.

Leases—As of December 31, 2004, The Company has non-cancelable operating leases through 2006 for office space. The lease contains provisions for escalations based on certain costs incurred by the lessor. For the year ended December 31, 2004, rent expense totaled \$243,433 (including a corporate allocation from Nasdaq for Nasdaq office space used by the Company’s employees for the period September 7, 2004 through December 31, 2004) and was included in occupancy in the consolidated statements of operations and comprehensive loss. Annual rent related to the non-cancelable operating lease is \$44,960 and \$15,140 through April 30, 2006.

Risks and Uncertainties— The Company generates substantially all of its revenue from transaction fees charged to market participants that either execute transactions against buy or sell orders in the System or have transactions routed outside the System for execution, and from market data revenue collected through its participation in the UTP plan. As a result, the Company's revenue could vary based on transaction volume and transaction fee levels, and on continued participation in the UTP plan.

9. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company considers cash and cash equivalents, receivables from brokers and dealers, receivables and payables with affiliates, accounts payable and accrued expenses, and accrued personnel costs to be its financial instruments. The carrying amounts reported in the consolidated statement of financial condition for the company's financial instruments closely approximates their fair values due to the short-term nature of these assets and liabilities.

10. EMPLOYEE BENEFITS

Employees of the Company are eligible to participate in Nasdaq's 401(k) plan. Prior to the acquisition by Nasdaq, employees of the Company were eligible to participate in SunGard's 401(k) plan. Under both plans, employees are able to contribute up to 15% of pre-tax compensation. The Company matches 100% of the first 4% of employee pre-tax contributions. The Company's total contribution expense was \$167,886 for the year ended December 31, 2004 and is included in Compensation and benefits in the consolidated statement of operations and comprehensive loss.

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