

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

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

October 28, 2002 (October 28, 2002)

Date of Report (Date of Earliest Event Reported)

The Nasdaq Stock Market, Inc.

(Exact Name of Registrant as Specified in Charter)

Delaware

000-32651

52-1165937

(State or Other Jurisdiction
of Incorporation)

(Commission File
File Number)

(IRS Employer
Identification No.)

One Liberty Plaza
New York, New York 10006

(Address of Principal Executive Offices and Zip Code)

(866) 745-1825

(Registrant's Telephone Number, Including Area Code)

N/A

(Former Name or Former Address, if Changed Since Last Report)

THE NASDAQ STOCK MARKET, INC.
FORM 8-K
INDEX

ITEM 7. FINANCIAL STATEMENTS, PRO FORMA FINANCIAL INFORMATION AND EXHIBITS

Financial Statements

None.

Pro Forma Financial Information

None.

Exhibits:

EXHIBIT
PAGE
NUMBER IN
NO.
DESCRIPTION
FILING - -

October
28, 2002

ITEM 9. REGULATION FD DISCLOSURE

The Nasdaq Stock Market, Inc. ("Nasdaq") issued a press release, dated October 28, 2002, in the form attached hereto as Exhibit 99.1. The press release contains financial information for Nasdaq for the quarter ended September 30, 2002, and certain forward-looking statements concerning Nasdaq. The information in this Form 8-K, including the exhibit, is being "furnished" pursuant to Item 9 and shall not be deemed "filed" with the Securities and Exchange Commission nor incorporated by reference into any registration statement filed by Nasdaq under the Securities Act of 1933.

SIGNATURE

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 hereunto duly authorized.

Date: October 28, 2002

THE NASDAQ STOCK MARKET, INC.

By: /s/ David P. Warren

David P. Warren
Executive Vice President
and Chief Financial Officer

NASDAQ
The Nasdaq Stock Market Inc.
4 Times Square
New York, New York 10036

PRESS RELEASE

FOR RELEASE: Monday, October 28, 2002
MEDIA CONTACTS: Bethany Sherman
(212) 768-2699
Scott Peterson
(301) 978-4873
INVESTOR CONTACTS: Paul Warburg
(212) 768-2540
O'Hara Macken
(212) 768-2564

NASDAQ REPORTS THIRD QUARTER 2002 RESULTS

NEW YORK, NY-- The Nasdaq Stock Market, Inc., (OTCBB:NDAQ) The world's largest electronic stock market, today reported third quarter results for the period ending September 30, 2002.

Significant Developments:

- o SEC approval to launch SuperMontage-SM-
- o Streamlined Cost Structure

"Nasdaq achieved its major milestone in the third quarter, the approval to launch SuperMontage," noted Wick Simmons, chairman and chief executive officer. "SuperMontage is the cornerstone of Nasdaq's set of advanced trading solutions and tools aimed at maximizing efficiency and transparency for investors. It will prove to be the fastest, fairest, deepest equities trading system on the planet, electronic or otherwise. It offers investors their best opportunity to achieve their own 'best execution'. In combination with our continuing focus on costs, we believe SuperMontage represents the foundation on which Nasdaq will deliver superior returns to shareholders."

NET INCOME

In a difficult revenue environment Nasdaq continued to streamline its cost structure, focusing on fundamental business operations and completing its separation from the National Association of Securities Dealers, Inc. (NASD):

- o Net income for the quarter was \$12.7 million as compared to \$7.9 million in the third quarter of 2001, an increase of 60.8%.
- o Basic and diluted earnings per share were \$0.13 versus \$0.07 in the comparable period in 2001.
- o Total expenses for the quarter were \$173.6 million compared to \$190.9 million, a 9.1% improvement over the third quarter of 2001.
- o Net income margin for the quarter expanded to 6.4%, versus 4.0% in the third quarter of 2001.

REVENUE

Nasdaq's third quarter revenue reflects a continuation of the difficult market conditions and increased competition experienced for the past year:

- o Revenue for the quarter was \$199.1 million, relatively flat compared to third quarter of 2001.

EBITDA (1)

Nasdaq operating performance remained strong:

- o EBITDA was \$50.6 million versus \$29.6 million in the same period last year, an increase of 70.9%.

INITIATIVES

Nasdaq's launch of SuperMontage on October 14, 2002 and the recent introduction of a series of complimentary products demonstrate the Company's fulfillment of a key strategic initiative aimed at improving investor confidence and trading effectiveness. Nasdaq's set of advanced trading solutions and tools includes:

PRICE DISCOVERY AND EXECUTION PRODUCTS DESIGNED TO IMPROVE SPEED AND EFFICIENCY FOR INVESTORS:

- o SuperMontage - Launched October 14, 2002 is the next generation order display and execution system enabling sell-side firms to list multiple quotes/orders for the same security and the creation of a

- o central trading book for Nasdaq securities.
- o Primex-TM- - An electronic auction system designed to increase price improvement and interaction among market participants. The functionality of Primex is planned to expand to take full advantage of Nasdaq's new SuperMontage trading platform.
- o Liquidity Tracker-SM- - An automated intelligent order routing system, which directs orders to market makers whose recent trading activity suggests a willingness to fill new orders, is scheduled to launch in the fourth quarter.

ENHANCED INFORMATION PRODUCTS DESIGNED TO GIVE INVESTORS A WINDOW INTO THE MARKET- The ViewSuite-SM-:

- o DepthView-SM- - Provides the aggregate size of all quotes and orders at each of the top five price levels in SuperMontage, providing users the ability to analyze liquidity trends within Nasdaq securities.
- o PowerView-SM- - Combines the current Level 2 Service, which provides the best bid and ask price from each Nasdaq market participant, and DepthView enabling users to see all of the interest within a security as well as unprecedented market depth
- o TotalView-SM- - Includes the features of PowerView as well as the detailed, attributed quote and order data that comprises DepthView, providing users the ability to track order flow, pockets of liquidity and analyze trends in liquidity to the participant level.

-- -----
 (1) EBITDA throughout this release is defined as earnings before interest, taxes, depreciation, amortization and minority interests.

BUSINESS LINE RESULTS

TRANSACTION SERVICES

Transaction services revenue was \$93.9 million in the third quarter versus \$86.2 million for the same period a year ago, an increase of 8.9%.

- o Execution services revenue increased 51.2% to \$37.8 million due to revised pricing for SuperSoes-SM-, including the introduction of new, incremental fees associated with quote updates in Nasdaq systems.
- o Trade reporting revenue increased 7.0% to \$19.9 million primarily due to increased trading volumes associated with a major issuer that was subsequently de-listed from The Nasdaq Stock Market (R).
- o Access services revenue decreased 15.4% to \$34.6 million primarily due to cost saving initiatives among Nasdaq's market participants and the consolidation of major trading firms, which resulted in fewer subscriber log-ons to Nasdaq systems.

Underlying this performance during the quarter was:

- o Average daily share volume in Nasdaq-traded securities increased 5.3% to 1.7 billion shares versus third quarter 2001.
- o Average daily trade volume increased 13.5% to 2.3 million trades versus the comparable period a year ago.
- o Nasdaq's share of trades executed in its systems fell to 28.6% from 39.3% in the third quarter of 2002 and to 32.6% from 39.0% in the nine-months year-to-date compared with the same period in 2001.
- o Nasdaq's share of volume executed in its systems fell to 23.17% from 29.24% in the third quarter of 2002 and to 27.89% from 28.01% in the nine-months year-to-date compared with the same period in 2001.

SuperMontage successfully completed its development cycle and all Nasdaq-listed securities are in the process of being phased into the system.

- o SuperMontage began trading 32 test securities on July 29, 2002.
- o The Securities and Exchange Commission, on August 28, 2002, granted Nasdaq unconditional approval to begin live trading on the new platform.
- o On October 14, 2002, to ensure all market participants were prepared for the implementation, Nasdaq successfully introduced five securities into the SuperMontage trading environment.
- o Nasdaq plans to have all Nasdaq-listed securities in SuperMontage by year-end.
- o Currently, there are 104 Nasdaq-listed securities trading in SuperMontage.

Nasdaq successfully launched SuperMontage Europe on October 7, 2002. The open architecture design enables local access to a European market, supporting diverse European business models and trading practices. SuperMontage Europe is based on the same principles as SuperMontage U.S., but has been customized to European best practices.

"We are proud of our ability to conceive, develop and deliver new innovative products to traders and investors. Although too early to assess its long-term impact, we are pleased with the early successes of SuperMontage and the opportunity that it offers participants in the equity markets," said Rick Ketchum, deputy chairman and president. "We will continue to work closely with our customers to ensure the successful rollout of all Nasdaq-listed securities in the trading platform and will explore new ways in which to serve the investment community."

Nasdaq Transaction Services derives revenue primarily from transactions associated with SuperSoes, SelectNet-SM-, SOES-SM-, trade reporting fees associated with ACT, and system access fees.

MARKET INFORMATION SERVICES

Market Information Services revenue declined 15.6% to \$49.1 million during the quarter from \$58.2 million in the same period last year.

- o Nasdaq's Level 1 revenue decreased 10.6% to \$34.4 million. Nasdaq Quotation Dissemination Service (NQDS) revenue decreased 19.8% to \$8.5 million. These decreases are primarily due to declines in professional and non-professional subscriptions.
- o Nasdaq shared with its participants a larger portion of revenue Nasdaq receives as part of the Unlisted Trading Privileges Plan. This increase in revenue sharing is primarily due to trade reporting activity by a regional exchange, which became an active participant in the first quarter, 2002.
- o Nasdaq InterMarket Tape revenue increased 27.3% to \$8.4 million primarily due to an increase in the total InterMarket transactions reported in exchange listed securities.

Nasdaq is rolling out the ViewSuite of data products and Liquidity Tracker in the fourth quarter of 2002. These products are designed to increase market transparency and maximize trading efficiency for Nasdaq traders and investors.

Market Information Services derives revenue primarily from Level 1 and Nasdaq Quotation Dissemination Service (NQDS) data, and receipt of CQA/CTA tape revenue for trades processed through the Nasdaq InterMarket.

CORPORATE CLIENT GROUP SERVICES

Corporate Client Group services revenue increased 12.2% to \$44.2 million for the third quarter, from \$39.4 million in the third quarter of 2001.

- o Annual renewal fee revenue increased 24.5% to \$25.9 million in the quarter primarily due to a fee increase implemented at the beginning of 2002.
- o Listing of additional shares revenue increased 5.6% to \$9.4 million. There were 15 secondary offerings in the quarter as compared to 32 in the third quarter of 2001. Year-to-date secondary offerings were relatively flat compared to year-ago levels, totaling 116.

- o Initial listing revenue declined 12.5% to \$8.4 million reflecting continued weakness in the IPO market. During the third quarter, there were six initial public offerings on Nasdaq versus 11 in the same period last year. Year-to-date, initial public offerings total 35, relatively flat with prior year and below historical averages.

In June 2002, the Corporate Client Group launched its Market Intelligence Desk. This new service redefines Nasdaq's Corporate Client Group offering by providing listed companies with a centralized point-of-contact for detailed information regarding their stocks' trading activity, news coverage and analyst opinion revisions. The Market Intelligence Desk is now tracking all Nasdaq-listed companies.

Corporate Client Group services revenue is primarily earned through initial listing fees, fees associated with the listing of additional shares, and annual renewal fees for companies listed on Nasdaq. Initial listing fees and fees associated with the listing of additional shares are amortized over six-year and four-year periods, respectively, in accordance with the adoption of SEC Staff Accounting Bulletin 101, applied retroactively as of January 1, 2000.

OTHER

Other revenue was \$11.9 million for the third quarter versus \$13.9 million a year ago, a decrease of 14.4%. The decrease is primarily due to the decline in trademark licensing revenue related to the Nasdaq-100 Trust occurring outside the Nasdaq InterMarket. The decline in trademark revenue is effectively offset

by higher tape revenue received by Nasdaq InterMarket, reflected in Market Information Services, as a result of its increased market share.

Nasdaq generates revenue related to the licensing of the Nasdaq-100 Index(R) for financial products such as the exchange-traded fund, QQQ. The Index, launched in 1985, includes the 100 largest non-financial stocks traded on The Nasdaq Stock Market. The Nasdaq-100 Index has become the basis for a wide variety of financial instruments, including futures contracts, mutual funds, index options, structured products and an exchange traded fund (QQQ). Nasdaq also generates revenue from Nasdaq.com and advertising revenue from the MarketSite tower.

EXPENSES

Total expenses were \$173.6 million in the third quarter versus \$190.9 million a year ago, an improvement of 9.1%. Nasdaq continues to target cost control while advancing its separation from the NASD. The operational and administrative separation of Nasdaq from the NASD is scheduled to be substantially complete in the fourth quarter of 2002.

DIRECT EXPENSES

Direct expenses decreased 8.4% to \$152.5 million in the third quarter of 2002 from \$166.5 million in the third quarter of 2001.

Nasdaq continued to benefit from initiatives taken to reduce fundamental costs required to run the business, namely:

- o Professional and contract services improved 24.5% to \$17.3 million due to a decrease in development costs associated with SuperMontage and Primex and less reliance on outside contractors with regard to Nasdaq's self-sufficiency efforts related to the separation from the NASD partially offset by an increase in costs associated with Nasdaq's global expansion strategy.
- o Computer operations and telecommunications improved 19.6% to \$35.3 million due to the renegotiation of key contracts.
- o Other expense improved 80.6% to \$2.0 million primarily due to reduced losses from international operations.
- o Continued attention to headcount, which is expected to result in further reduction in the fourth quarter.

Offsetting these efficiencies were:

- o Compensation and benefits increased 13.2% to \$51.3 million reflecting increased headcount related to self-sufficiency as well as additional benefit obligations.
- o Depreciation and amortization increased 9.6% to \$25.1 million due to capacity and technology infrastructure improvements required to support market activity and new initiatives.
- o Occupancy increased 17.2% to \$7.5 million as part of Nasdaq's separation from the NASD, previously recorded in Support Costs from Related Parties.

SUPPORT COSTS FROM RELATED PARTIES

Support Costs from Related Parties decreased 13.5% to \$21.1 million from \$24.4 million. Two factors contribute to Nasdaq's support costs:

- o The first is related to the regulatory role that NASD performs in The Nasdaq Stock Market, Inc.
- o The second is related to the support functions that the NASD has traditionally provided Nasdaq.

The improvement during the quarter is due to Nasdaq's decreased reliance on the NASD for administrative support functions as Nasdaq continues to develop its independent infrastructure.

"Nasdaq continues to take aggressive action to control the fundamental costs to run the business," said David Warren, chief financial officer. "We continue to explore new initiatives designed to drive additional cost out of our business and create greater operating leverage."

NET INCOME AND EARNINGS PER SHARE

Net income for the quarter was \$12.7 million versus \$7.9 million a year ago, an increase of 60.8%.

Basic and diluted earnings per share were \$0.13 versus \$0.07 in the third quarter 2001, an increase of 86% reflecting higher net income as well as the accretive impact of the repurchase of 33.8 million shares from the NASD in the

SEPTEMBER
 SEPTEMBER
 SEPTEMBER 30,
 2002 30, 2001
 30, 2002 30,
 2001 -----
 - - - - -

 REVENUES
 Transaction
 Services \$
 93,854 \$
 86,198 \$
 303,870 \$
 311,051
 Market
 Information
 Services
 49,092 58,255
 150,863
 176,925
 Corporate
 Client Group
 Services
 44,248 39,378
 132,115
 116,463 Other
 11,894 13,877
 28,795 37,342

 Total
 revenues
 199,088
 197,708
 615,643
 641,781 -----

 - - - - -

 EXPENSES
 Compensation
 and benefits
 51,322 45,322
 142,434
 131,131
 Marketing and
 advertising
 6,121 5,948
 14,159 17,597
 Depreciation
 and
 amortization
 25,130 22,894
 75,228 65,558
 Professional
 and contract
 services
 17,237 22,858
 49,270 54,424
 Computer
 operations
 and data
 communications
 35,284 43,927
 113,163
 131,875
 Provision for
 bad debts
 2,496 1,457
 9,004 14,460
 Travel,
 meetings, and
 training
 2,710 3,715
 9,438 11,193
 Occupancy
 7,454 6,404
 24,427 19,866

Publications,
supplies, and
postage 2,733
2,884 7,772
8,538 Nasdaq
Japan
impairment
loss -- --
15,208 --
Disaster
related --
843 -- 843
Other 2,025
10,289 19,942
28,594 -----

----- Total
direct
expenses
152,512
166,541
480,045
484,079 -----

Support costs
from related
parties, net
21,102 24,413
56,453 76,121

Total
expenses
173,614
190,954
536,498
560,200 -----

----- Net
operating
income 25,474
6,754 79,145
81,581
Interest
income 2,829
6,672 9,301
16,649
Interest
expense
(6,319)
(2,997)
(13,448)
(5,447)
Minority
interests
2,953 3,252
8,551 5,234 -

Net income
before taxes
24,937 13,681
83,549 98,017
Provision for
income taxes
(12,226)
(5,736)
(40,741)
(44,297) -----

----- Net
income \$
12,711 \$
7,945 \$

42,808 \$
 53,720
 =====
 =====
 =====
 ===== Net
 income
 applicable to
 common
 stockholders:
 Net income \$
 12,711 \$
 7,945 \$
 42,808 \$
 53,720
 Accretion of
 preferred
 stock
 dividends
 2,441 --
 7,323 -- ----

 ----- Net
 income
 applicable to
 common
 stockholders
 \$ 10,270 \$
 7,945 \$
 35,485 \$
 53,720
 =====
 =====
 =====
 =====
 Basic
 earnings per
 common share
 \$ 0.13 \$ 0.07
 \$ 0.42 \$ 0.45
 =====
 =====
 =====
 =====
 Diluted
 earnings per
 common share
 \$ 0.13 \$ 0.07
 \$ 0.40 \$ 0.44
 =====
 =====
 =====
 =====

THE NASDAQ STOCK MARKET, INC.
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (IN THOUSANDS, EXCEPT SHARE AMOUNTS)

SEPTEMBER
 DECEMBER
 30, 31,
 2002 2001 -

(UNAUDITED)
 ASSETS
 Current
 assets:
 Cash and
 cash
 equivalents
 \$ 274,170 \$
 293,731
 Investments:
 Available-

for-sale,
at fair
value
184,503
228,029
Held-to-
maturity,
at
amortized
cost 15,653
--

Receivables,
net 174,017
194,040

Receivables
from
related
parties
12,135
34,953
Deferred
tax asset
50,824
51,170
Other
current
assets
10,239
13,249 ----

Total
current
assets
721,541
815,172

Investments:
Held-to-
maturity,
at
amortized
cost 12,821
28,569

Property
and
equipment:
Land,
buildings,
and
improvements
93,038

88,861 Data
processing
equipment
and
software
484,089
441,928

Furniture,
equipment,
and
leasehold
improvements
181,861
184,572 ---

758,988
715,361
Less
accumulated
depreciation
and
amortization
(399,796)
(336,528) -

Total
property
and

equipment,
 net 359,192
 378,833
 Non-current
 deferred
 tax asset
 73,163
 74,987
 Goodwill
 10,138
 10,138
 Other
 intangible
 assets
 7,437 9,331
 Other
 assets
 7,262 9,221

 Total
 assets \$
 1,191,554 \$
 1,326,251
 =====
 =====

THE NASDAQ STOCK MARKET, INC.
 CONDENSED CONSOLIDATED BALANCE SHEETS - (CONTINUED)
 (IN THOUSANDS, EXCEPT SHARE AMOUNTS)

SEPTEMBER
 DECEMBER 30,
 31, 2002
 2001 -----

 (UNAUDITED)
 LIABILITIES
 Current
 liabilities:
 Accounts
 payable and
 accrued
 expenses \$
 89,824 \$
 123,136
 Accrued
 personnel
 costs 36,553
 43,744
 Deferred
 revenue
 90,785
 65,366 Other
 accrued
 liabilities
 35,866
 47,296
 Current
 obligation
 under
 capital
 lease 4,048
 4,454
 Payables to
 related
 parties
 24,623 9,556

 Total
 current
 liabilities
 281,699
 293,552

Long-term
 debt: Senior
 notes
 200,122
 48,548
 Subordinated
 notes
 240,000
 240,000 Non-
 current
 obligation
 under
 capital
 lease 9,046
 12,125
 Accrued
 pension
 costs 24,853
 24,064 Non-
 current
 deferred tax
 liability
 50,772
 41,981 Non-
 current
 deferred
 revenue
 108,666
 121,687
 Other
 liabilities
 13,016
 20,529 -----

 ----- Total
 long-term
 liabilities
 646,475
 508,934
 Total
 liabilities
 928,174
 802,486
 Minority
 interests
 (2,654)
 5,377
 STOCKHOLDERS'
 EQUITY
 Common
 stock, \$.01
 par value,
 300,000,000
 authorized,
 shares
 issued:
 130,435,967
 at September
 30, 2002 and
 130,161,823
 at December
 31, 2001;
 shares
 outstanding:
 78,183,754
 at September
 30, 2002 and
 111,700,285
 at December
 31, 2001
 1,304 1,302
 Preferred
 stock,
 30,000,000
 authorized,
 Series A:
 1,338,402
 shares
 issued and
 outstanding;
 Series B: 1

share issued
and
outstanding
131,399 --
Additional
paid-in
capital
357,996
348,457
Common stock
in treasury,
at cost:
52,252,213
at September
30, 2002 and
18,461,538
shares at
December 31,
2001
(669,454)
(240,000)
Accumulated
other
comprehensive
income
(6,287)
(6,976)
Deferred
stock
compensation
(2,370)
(3,350)
Common stock
issuable
5,071 6,065
Retained
earnings
448,375
412,890 ----
----- ----

Total
stockholders'
equity
266,034
518,388 ----
----- ----

Total
liabilities,
minority
interests,
and
stockholders'
equity \$
1,191,554 \$
1,326,251
=====