

MEDIA GENERAL INC
Form 4
October 02, 2006

FORM 4

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

OMB APPROVAL

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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
WOODLIEF H GRAHAM

(Last) (First) (Middle)

333 EAST FRANKLIN ST

(Street)

RICHMOND, VA 23219

(City) (State) (Zip)

2. Issuer Name and Ticker or Trading Symbol
MEDIA GENERAL INC [MEG]

3. Date of Earliest Transaction
(Month/Day/Year)
09/29/2006

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

___ Director ___ 10% Owner
 Officer (give title below) ___ Other (specify below)
Vice President

6. Individual or Joint/Group Filing(Check Applicable Line)
 Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Ownership Indirect Beneficial Ownership (Instr. 4)
				(A) or (D)	Code V Amount (D) Price		

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474
(9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned (e.g., puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security	2. Conversion or Exercise	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any	4. Transaction Code	5. Number of Derivative	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)	8. Price of Derivative Security
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Represents \$18.5 million in legal costs, \$3.9 million in severance payments and \$3.7 million in integration costs incurred in 2005 in connection with the merger with Archipelago.

(3)

Represents liabilities due after one year, including accrued employee benefits and the long-term portion of deferred revenue.

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Summary Historical Financial Data of Archipelago (as predecessor to NYSE Arca)

The following summary historical financial data of Archipelago has been derived from the historical consolidated financial statements and related notes of Archipelago for each of the years ended December 31, 2001 through December 31, 2005. The information presented here is only a summary, and it should be read together with Archipelago's historical financial statements set forth on pages F-33 to F-63 of this prospectus. The information set forth below is not necessarily indicative of NYSE Group's results of future operations and should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations of Archipelago." Archipelago acquired PCX Holdings on September 26, 2005. The financial data set forth below do not reflect the results of operation or financial condition of PCX Holdings prior to the date of acquisition.

	Year ended December 31,				
	2005 ⁽¹⁾	2004 ⁽²⁾	2003	2002 ⁽³⁾	2001
	(in millions, except per share data)				
Results of Operations					
Revenues ⁽⁵⁾ :					
Transaction fees	\$ 425.0	\$ 434.5	\$ 380.6	\$ 346.2	\$ 172.2
Activity assessment fees ⁽⁶⁾	48.0				
Market data fees ⁽⁷⁾	62.0	56.4	29.0	1.7	
Listing and other fees	6.4	0.4	0.5	0.3	
	<u>541.4</u>	<u>491.3</u>	<u>410.1</u>	<u>348.2</u>	<u>172.2</u>
Equity entitlements ⁽⁸⁾					(17.0)
Total revenues	<u>541.4</u>	<u>491.3</u>	<u>410.1</u>	<u>348.2</u>	<u>155.2</u>
Section 31 fees ⁽⁶⁾	48.0				
Revenues, less Section 31 fees	<u>493.4</u>	<u>491.3</u>	<u>410.1</u>	<u>348.2</u>	<u>155.2</u>
Cost of revenues ⁽⁵⁾ :					
Liquidity payments ⁽⁹⁾	206.9	203.5	154.2	45.8	
Routing charges	66.7	88.7	113.8	150.5	63.9
Clearance, brokerage and other transaction expenses ⁽¹⁰⁾	5.9	13.7	45.0	86.8	29.1
Total cost of revenues	<u>279.5</u>	<u>305.9</u>	<u>313.0</u>	<u>283.1</u>	<u>93.0</u>
Gross margin	<u>213.9</u>	<u>185.4</u>	<u>97.1</u>	<u>65.1</u>	<u>62.2</u>
Indirect expenses ⁽⁵⁾ :					
NYSE merger costs and related executive compensation ⁽¹¹⁾	46.1				
Other employee compensation and benefits	51.6	38.4	36.1	21.6	21.7
Depreciation and amortization	21.6	22.9	25.9	16.6	10.1
Communications	19.5	16.3	18.3	23.1	26.8
Marketing and promotion	22.2	20.1	8.1	19.0	24.5
Legal and professional	12.6	11.1	8.3	7.0	6.5
Occupancy	6.7	4.2	4.0	2.5	2.0
General and administrative	16.2	11.3	9.9	8.5	8.0
Total indirect expenses	<u>196.5</u>	<u>124.3</u>	<u>110.6</u>	<u>98.3</u>	<u>99.6</u>
Operating income (loss)	17.4	61.1	(13.5)	(33.2)	(37.4)
Interest and other, net	4.5	1.6	0.6	1.3	3.3
Unrealized loss on investment owned				(2.7)	(3.9)

Explanation of Responses:

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	Year ended December 31,				
Income (loss) before income tax provision	21.9	62.7	(12.9)	(34.6)	(38.0)
Income tax provision ⁽¹²⁾	9.4	5.3			
Income (loss) from continuing operations	12.5	57.4	(12.9)	(34.6)	(38.0)
Income (loss) from discontinued operations ⁽⁴⁾	3.8	11.5	14.7	(1.0)	
Net income (loss)	16.3	68.9	1.8	(35.6)	(38.0)
Deemed dividend on convertible preferred shares ⁽¹³⁾		(9.6)			
Net income (loss) attributable to common stockholders	\$ 16.3	\$ 59.3	\$ 1.8	\$ (35.6)	\$ (38.0)

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operations.

- (7) Following the launch of ArcaEx in March 2002, Archipelago began earning revenues from market data fees based on the level of trading activity on ArcaEx. As the operator of ArcaEx, Archipelago became eligible to participate in the sale of market data to, and the receipt of market data fees from, centralized aggregators of this information.
- (8) In January 2000, Archipelago implemented an equity entitlement program under which participating customers became eligible to earn "equity entitlements" based on the volume of order flow on Archipelago's trading platforms. Equity entitlements were

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converted into Class B shares of Archipelago Holdings L.L.C. without additional consideration. These shares were converted into shares of Archipelago common stock in the conversion of Archipelago Holdings L.L.C. into Archipelago Holdings, Inc.

- (9) In April 2002, to enhance the liquidity of its system, Archipelago began to pay a small fee per share, referred to as "liquidity payments," to participants that post certain buy orders and sell orders on the Archipelago system when the quote is executed against by other participants purchasing and selling internally on the Archipelago system. Archipelago generally does not pay these fees for orders posted on NYSE-listed securities.
- (10) Archipelago undertook self-clearing initiatives of its routing broker and introducing broker businesses. Effective in January 2005, Archipelago began to self-clear trades routed by ArcaEx to other market centers for execution. In addition, effective in July 2004, Archipelago began to self-clear trades effected by non-ETP broker-dealer customers accessing ArcaEx through Archipelago Trading Services. In addition, due to the lower percentage of orders routed out to other market centers, Archipelago's number of trades subject to clearing costs has decreased.
- (11) In connection with its merger with the NYSE, Archipelago incurred legal, banking, regulatory and other fees. In addition, Archipelago incurred certain executive compensation expenses as a result of the acceleration of payments to, and vesting of restricted stock units of, Archipelago officers.
- (12) As a limited liability company, all income taxes were paid by the members of Archipelago. As a corporation, Archipelago is responsible for the payment of all U.S. federal, state and local corporate income taxes.
- (13) In August 2004, in connection with its initial public offering, Archipelago converted 16,793,637 Class A preferred shares of Archipelago (sold to GAP Archa Holdings, L.L.C., an affiliate of General Atlantic LLC ("General Atlantic"), on November 12, 2003 for total consideration of \$50.0 million) into 4,449,268 shares of Archipelago common stock. Included in this conversion was the issuance of 717,349 shares of common stock attributable to a \$9.6 million beneficial conversion feature included in the previously issued redeemable preferred interest.
- (14) In August 2004, in connection with Archipelago's reorganization, the members of Archipelago Holdings L.L.C. received 0.222222 shares of Archipelago common stock for each membership held by the member in Archipelago Holdings L.L.C. The weighted average number of shares used in the basic and diluted earnings per share computations gives retroactive effect to this 4.5-for-1 reverse stock split.
- (15) As approved by the board of managers of Archipelago Holdings L.L.C. on July 16, 2004, Archipelago Holdings L.L.C. made a cash distribution to its members immediately prior to the conversion transaction. The cash distribution provided funds to the members to permit them to pay taxes that the members owe for their share of Archipelago's profits in 2004 as a limited liability company through the date of the conversion transaction, calculated primarily based on the highest federal and state income tax rate applicable for tax withholding purposes to an individual. The cash distribution was approximately \$24.6 million and resulted in a corresponding reduction to cash and cash equivalents. As used in this discussion, the term "members" refers to the former owners of Archipelago Holdings L.L.C.
- (16) In August 2004, Archipelago completed its initial public offering and sold 6,325,000 shares of Archipelago common stock at \$11.50 per share. Archipelago received net proceeds of \$67.6 million and incurred approximately \$6.8 million in expenses in connection with its initial public offering.

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Selected Statistical Data of NYSE and NYSE Arca

	Year Ended December 31,		
	2005	2004	2003
	(unaudited)		
NYSE:			
Company listings:			
NYSE listed issuers ⁽¹⁾	2,672	2,618	2,561
Number of new issuer listings ⁽²⁾	192	165	109
NYSE share (%) of domestic qualified new operating company listings proceeds (IPOs) ⁽³⁾	91.5%	90.0%	82.5%
NYSE share (%) of international qualified new operating company listings proceeds (IPOs) ⁽⁴⁾	95.8%	96.6%	100.0%
Trading activity: NYSE-listed common and warrants ⁽⁵⁾			
Consolidated average daily volume (millions of shares) ⁽⁶⁾	2,001.2	1,774.6	1,691.9
% change	12.8%	4.9%	
NYSE listed average daily volume (millions of shares) ⁽⁶⁾	1,529.3	1,402.7	1,341.0
% change	9.0%	4.6%	(3.4)%
NYSE share of trading full day (%) ⁽⁷⁾	76.4%	79.0%	79.3%
NYSE share of trading trading hours (%) ⁽⁸⁾	78.6%	81.1%	81.5%
Trading activity: other ⁽⁹⁾			
NYSE UTP ETF average daily volume (millions of shares) ⁽¹⁰⁾	6.4	7.9	10.5
Average daily volume in crossing sessions, preferred stocks and other issues ⁽¹¹⁾	61.0	42.0	38.5
Market information:			
Tape A share of trades (%) ⁽¹²⁾	87.5%	90.6%	89.8%
Professional subscribers	413,458	411,343	402,152
Regulatory fees:			
Gross FOCUS revenues (\$ billions) ⁽¹³⁾	187.3	145.4	145.7
Data processing:			
% SIAC revenue from non-NYSE customers	42.0%	45.1%	47.0%
NYSE Arca:			
NYSE Arca's total U.S. market volume (millions of shares)	144,318	140,306	116,800
NYSE Arca's share of total U.S. market volume ⁽¹⁴⁾	13.8%	14.2%	12.6%
NYSE Arca's total volume of Nasdaq-listed securities (millions of shares)	104,271	115,008	104,312
NYSE Arca's share of total volume of Nasdaq-listed securities ⁽¹⁴⁾	23.0%	25.2%	24.6%
% of handled shares matched internally	18.4%	19.2%	16.8%
% of handled shares routed out	4.6%	6.0%	7.8%
NYSE Arca's volume in NYSE-listed securities (millions of shares)	18,855	8,375	4,904
NYSE Arca's share of total volume of NYSE-listed securities ⁽¹⁴⁾	3.6%	1.8%	1.1%
NYSE Arca's volume in AMEX-listed securities (millions of shares)	21,192	16,924	7,585
NYSE Arca's share of total volume of AMEX-listed securities ⁽¹⁴⁾	30.0%	22.7%	12.2%
NYSE Arca's ETF volume (millions of shares)	25,152	15,637	6,349
% of customer order volume matched internally ⁽¹⁵⁾	88.8%	86.6%	80.6%
% of customer order volume routed out ⁽¹⁵⁾	11.2%	13.4%	19.4%

(1) Number of listed operating companies, closed-end funds and ETFs as of period end.

(2) Includes initial public offerings and transfers of common stocks from other markets.

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- (3) Proceeds raised by NYSE-listed domestic IPOs/Total proceeds raised by qualified domestic IPOs. Qualified IPOs represent initial public offerings of issuers that meet the NYSE's initial listing criteria.
- (4) Proceeds raised by NYSE-listed international IPOs/Total proceeds raised by qualified international IPOs. We deem the initial capital-raising event in the United States involving a listing of a non-U.S. issuer to be an international IPO for purposes of this calculation. Qualified IPOs represent initial public offerings of issuers that meet the NYSE's initial listing criteria.
- (5) Trading activity includes only trades executed in NYSE-listed common stocks and warrants, as defined by the NYSE, and excludes any trading activity in NYSE's preferred stocks, rights, structured products (including NYSE-listed ETFs) and during the NYSE's four crossing sessions (which are periods during which trading takes place after the close of regular trading sessions).
- (6) Consolidated average daily volume includes the trading volume executed across all exchanges as reported to the consolidated tape between 4:00 am to 8:00 pm EST. NYSE-listed average daily volume includes the trading volume executed on the NYSE during normal NYSE business hours (currently 9:30 am to 4:00 pm EST). The consolidated aggregate trading volume and the NYSE-listed aggregate trading volume are then divided by the appropriate number of trading days in the period.
- (7) Represents the NYSE average daily volume executed during normal NYSE business hours (currently 9:30 am to 4:00 pm EST) divided by the consolidated average daily volume executed full day (currently 4:00 am to 8:00 pm EST).
- (8) Represents the NYSE average daily volume executed during normal NYSE business hours (currently 9:30 am to 4:00 pm EST) divided by the consolidated average daily volume executed during normal NYSE business hours.
- (9) Other trading activity includes any trades executed on the NYSE that were not included in note (5) above, including (a) trades executed on the NYSE in non-listed ETFs under NYSE's unlisted trading privileges, (b) trades executed during the NYSE's four crossing sessions, and (c) trades executed on the NYSE in preferred stocks, rights, and structured products. Unlisted trading privileges, or UTP, refer to the right of exchanges and other markets centers under the Exchange Act to trade securities listed on any national securities exchange.
- (10) The NYSE began trading ETFs on a UTP basis on the NYSE began on July 31, 2001. The NYSE currently trades over 47 ETFs on a UTP basis, including the Standard & Poor's Depository Receipts® (SPY) and the Dow Industrials DIAMONDS® (DIA).
- (11) Represents trading volumes executed on the NYSE in preferred stocks, rights, structured products (including NYSE-listed ETFs) and trading volumes executed during the NYSE's four crossing sessions.
- (12) Represents the NYSE's share of qualifying trades in NYSE-listed securities reported by the NYSE to the consolidated tape, as compared to the total number of qualifying trades in NYSE-listed securities reported to the consolidated tape by all other participating market centers. The consolidated tape refers to a collection of market data that multiple markets make available on a consolidated basis. "Tape A" refers to trades in NYSE-listed securities reported to the consolidated tape.
- (13) Gross FOCUS revenues represent revenues generated by member broker-dealers as reported on their "FOCUS" report (as required by the SEC). A member broker-dealer's regulatory fee is based on the revenues reported. The NYSE records revenue on a six-month lag; the data is provided on this basis.
- (14) NYSE Arca's share of trading is calculated based on the number of shares handled on the NYSE Arca system as a percentage of total volume as reported in the consolidated tape. For a discussion of the method by which Archipelago calculates its share, its trading volumes and selected operating measures, see "Management's Discussion and Analysis of Financial Condition and Results of Operations of Archipelago Key Statistical Information."
- (15) For the percentage of handled shares matched internally and routed out, see "Management's Discussion and Analysis of Financial Condition and Results of Operations of Archipelago Key Statistical Information."

Selected Unaudited Pro Forma Condensed Combined Financial Data

The following table shows information about the pro forma financial condition and results of operations of NYSE Group after giving effect to the merger of the NYSE and Archipelago and the acquisition of PCX Holdings by Archipelago.

The table sets forth selected unaudited pro forma condensed combined statements of operations data for the fiscal year ended December 31, 2005, as if the merger of the NYSE and Archipelago and Archipelago's acquisition of PCX Holdings had become effective on January 1, 2005, and the selected unaudited pro forma condensed combined balance sheet data as of December 31, 2005, as if the merger of the NYSE and Archipelago and Archipelago's acquisition of PCX Holdings had become effective on that date. For purposes of the pro forma condensed combined financial data, we have assumed that the stock price of Archipelago is \$22.43 per share (based on the average closing stock price for the five-day period beginning two days before and ending two days after April 20, 2005, the date on which the merger was agreed to and announced) and that 47,838,000 shares of Archipelago common stock were outstanding at the date of the completion of the merger (including 49,640,000 shares issued less approximately 1,802,000 shares held in treasury). The closing price of Archipelago common stock on March 7, 2006, the date of the completion of the NYSE and Archipelago merger, was \$64.25 per share. The information presented below should be read together with the publicly available historical consolidated financial statements of the NYSE and Archipelago, including the related notes, and together with the consolidated historical financial data for the NYSE and Archipelago and the other unaudited pro forma financial data, including the related notes, appearing elsewhere in this prospectus. See "Unaudited Pro Forma Condensed Combined Financial Data for NYSE Group." The unaudited pro forma financial data is not necessarily indicative of results that actually would have occurred had the NYSE-Archipelago merger been completed on the dates indicated or that may be obtained in the future. See also "Risk Factors" and "Forward-Looking Statements."

	Year Ended December 31, 2005	
	(unaudited) (in thousands except per share data)	
Total revenues	\$	1,667,004
Income from continuing operations	\$	89,991
Diluted earnings per share from continuing operations	\$	0.58
	As of December 31, 2005	
	(unaudited) (in thousands)	
Total assets	\$	3,154,039
Total liabilities	\$	1,752,950
Total stockholders' equity	\$	1,365,925

RISK FACTORS

An investment in our common stock is subject to risks and uncertainties. You should carefully consider the following risks and all of the other information set forth in this prospectus before deciding whether to purchase our common stock. These risks could result in the loss of all or part of your investment.

Risks Relating to Our Business

We face numerous competitors, including both U.S.-based and non-U.S.-based competitors.

We face significant competition, and expect competition to continue to intensify for securities trading and listings. Our competitors and prospective competitors, both domestically and around the world, are numerous and include both traditional and non-traditional execution and listings venues.

We compete with U.S.-based and non-U.S.-based markets, ECNs and other alternative trading systems, market-makers and other execution venues. We also face competition from broker-dealers, some of which are the NYSE's largest customers, that internalize order flow. Internalization of order flow occurs when a broker-dealer trades against or matches its own customers' orders, extracting liquidity from the public market and decreasing trading volume in the public domain.

We compete with other market participants in a variety of ways, including the cost, quality and speed of trade execution, the functionality, ease of use and performance of trading systems, the range of products and services offered to trading participants and listed companies, technological innovation and reputation. Our competitors may:

respond more quickly to competitive pressures because they are not subject to the same degree of regulatory oversight as we are;

develop products that are preferred by our customers;

price their products and services more competitively;

develop and expand their network infrastructure and service offerings more efficiently;

utilize faster, more user-friendly technology;

consolidate and form alliances, which may create greater liquidity, lower costs and better pricing than we are able to offer;

market, promote and sell their products and services more effectively; and

better leverage existing relationships with customers and alliance partners or better exploit brand names to market and sell their services.

We may also face competition from new entrants into the markets in which we compete. The emergence of new competitors may increase price competition and reduce margins for all existing securities markets, including ours. New entrants may include new alternative trading systems and new initiatives by existing market participants, including established securities markets or exchanges, and current customers of the NYSE and NYSE Arca that may internalize some of their order flow in the future.

As a result of this competition, the NYSE's share of trading in NYSE-listed securities has recently declined, although the NYSE's overall trading volume in these securities has increased during this time period. If the growth in the NYSE's overall trading volume does not adequately offset any decline in the NYSE's share of trading, or if the decline in the NYSE's share of trading makes the NYSE's market appear to be less liquid, then our financial condition and operating results will be adversely affected. For a discussion of the competitive environment in which we operate, see "Industry Overview Competition."

Globalization, growth, consolidations and other strategic arrangements may impair our competitive position.

The liberalization and globalization of world markets have resulted in greater mobility of capital, greater international participation in local markets and more competition among markets in different geographical areas. As a result, the competition among U.S.-based and non-U.S.-based markets and other execution venues has become more intense.

In addition, in the last several years, the structure of the securities industry has changed significantly through demutualizations and consolidations. In response to growing competition, many marketplaces in both Europe and the United States have demutualized to provide greater flexibility for future growth. The securities industry is also experiencing consolidation, creating a more intense competitive environment. In particular, Nasdaq recently completed its acquisition of INET ECN ("INET"). Both the Philadelphia Stock Exchange, Inc. and Boston Stock Exchange, Inc. have also recently entered into investment agreements with other participants in the securities industry, with the objective of enabling them to better compete with other exchanges. In addition, there have been a number of recent attempts by more than one European exchange to acquire the London Stock Exchange. In addition, Nasdaq made a takeover bid for the LSE on March 10, 2006. While we intend to pursue strategic acquisitions and alliances to enhance our global competitive position, the market for acquisition targets and strategic alliances is highly competitive, particularly in light of increasing consolidation in the securities industry, which may adversely affect our ability to find acquisition targets or strategic partners that fit our strategy objectives. In pursuing our strategy, we will need to respond to potential opportunities quickly and decisively. Strategic transactions may occur at any time and be significant in size relative to our assets and operations.

Because of these market trends, we face intense competition. If we are unable to compete successfully in this environment, our business, financial condition and operating results will be adversely affected.

The legal and regulatory environment in the United States may make it difficult for us to compete with non-U.S. securities exchanges for the secondary listings of non-U.S. companies.

We compete to obtain the listing of non-U.S. issuer securities (in addition to the listing of domestic issuer securities). However, the legal and regulatory environment in the United States, as well as the perception of this environment, has made it more difficult for us to compete with non-U.S. securities exchanges for these listings. For example, the Sarbanes-Oxley Act of 2002 imposes a stringent set of corporate governance, reporting and other requirements on both U.S. and non-U.S. publicly listed companies. Significant resources are necessary to come into and remain in compliance with the requirements of the Sarbanes-Oxley Act, which has had, and may continue to have, an impact on our ability to attract and retain listings. At the same time, international companies are increasingly seeking access to the U.S. markets through private transactions that do not require listing or trading in the U.S. public markets, such as through Rule 144A transactions. In the late 1990s, approximately 50% of the proceeds raised by international companies in the U.S. markets were raised privately, and the NYSE listed 60 foreign private issuers. In comparison, in 2005, approximately 80% of the proceeds raised by international companies in the U.S. markets were raised privately, and the NYSE averaged approximately 20 new listings for international companies per year. Non-U.S. issuers may choose to list with non-U.S. securities exchanges exclusively without a secondary listing in the United States because they perceive the U.S. regulatory requirements and the U.S. litigation environment as too cumbersome and costly. If we are unable to successfully attract the listing business of non-U.S. issuers, our operating results could suffer.

Our business may be adversely affected by price competition.

The securities industry is characterized by intense price competition. The pricing model for trade execution for equity securities has changed in response to competitive market conditions. Some of our competitors have recently lowered their transaction costs and accordingly reduced the fees that they charge. In addition, we may face price competition in the fees that we charge to our customers to list securities on our securities exchanges. It is likely that we will continue to experience significant pricing

pressures and that some of our competitors will seek to increase their share of trading or listings by further reducing their transaction fees or listing fees, by offering larger liquidity payments or by offering other forms of financial or other incentives. Our operating results and future profitability could be adversely affected as a result of these activities. For example, we could lose a substantial percentage of our share of trading or listings if we are unable to price our transactions in a competitive manner, or our profit margins could decline if we reduce our pricing in response. In addition, one or more competitors may engage in aggressive pricing strategies and significantly decrease or completely eliminate their profit margin for a period of time in order to capture a greater share of trading or listings. Some competitors, especially those outside of the United States, have high profit margins in business areas in which we do not engage, which may assist them in executing these strategies. This environment could lead to loss of order flow and decreased revenues, and consequently could adversely affect our operating results.

In addition, we are currently undertaking a fundamental review of our pricing structures for trading fees. There is risk inherent in the introduction of new pricing structures, and the implementation of a new price structure may have material adverse effects on our business, financial condition and operating results.

We may not be able to successfully integrate the businesses and operations of the NYSE and Archipelago in a timely fashion or at all.

Our management may face significant challenges in consolidating the functions of the NYSE and Archipelago, integrating their technologies, organizations, procedures, policies and operations, as well as addressing differences in the business cultures of the companies and retaining key personnel. The integration may also be complex and time consuming, and require substantial resources and effort. The integration process and other disruptions resulting from these transactions may disrupt our ongoing businesses or cause inconsistencies in standards, controls, procedures and policies that adversely affect our relationships with market participants, employees, regulators and others with whom we have business relationships or other dealings. If we fail to manage the integration of these businesses effectively, our growth strategy and future profitability could be negatively affected. In addition, difficulties in integrating the businesses of the NYSE and Archipelago could harm our reputation.

We may fail to realize the anticipated cost savings, growth opportunities and synergies and other benefits anticipated from the combination of the NYSE and Archipelago.

We are a holding company that was formed for the purpose of effecting the merger of the NYSE and Archipelago, which occurred on March 7, 2006. Prior to the merger, the NYSE and Archipelago operated as separate, independent companies. The success of the merger (and, in turn, our results of operations) will depend, in part, on our ability to realize the anticipated synergies and growth opportunities from combining these businesses, as well as on achieving the cost savings and revenue growth trends that the NYSE and Archipelago had identified that they expected to achieve prior to the merger. We expect that the merger will enable us to benefit from operational synergies resulting from combining the two companies' capabilities and eliminating redundancies, as well as from greater efficiencies from increased scale, market integration and automation. We also intend to focus on revenue synergies that can be achieved by the combined entity. It is possible, however, that we may not be able to successfully integrate the businesses in a manner that achieves these cost savings and synergies. In addition, it is possible that the measures we take to achieve these costs savings and synergies could adversely affect current revenues and our investments in future growth.

We must keep up with emerging technological changes in order to compete effectively in a rapidly evolving and highly competitive industry.

We operate in a business environment that has undergone, and continues to experience, significant and rapid technological change. In recent years, electronic trading has grown significantly, and customer

demand for increased choice of execution methods has increased. To remain competitive, we must continue to enhance and improve the responsiveness, functionality, accessibility and features of our trading platforms, software, systems and technologies. Our success will depend, in part, on our ability to:

develop and license leading technologies useful in our businesses;

enhance our existing trading platforms and services;

respond to customer demands, technological advances and emerging industry standards and practices on a cost-effective and timely basis; and

continue to attract and retain highly skilled technology staff to maintain and develop our existing technology and to adapt to and manage emerging technologies.

The development and expansion of electronic trading technology entails significant technological, financial and business risks. Any failure or delay in exploiting technology, or failure to exploit technology as effectively as our competitors, could have a material adverse effect on our business, financial condition and operating results. In addition, the increased use of electronic trading on the NYSE may make it more difficult for us to differentiate our products from those of our competitors, possibly reducing one of the competitive strengths of the NYSE. This may have an adverse impact on our business and, in particular, may reduce the incentive for companies to list on the NYSE. In addition, the commoditization of trade execution may result in a reduction in the number of people using the NYSE's trading floor. This may result in a decrease in the revenues raised through the use of our trading floor.

We use leading technologies and currently devote substantial resources to our services. The adoption of new technologies or market practices may require us to devote additional resources to modify and adapt our services. In such cases, we cannot assure you that we will succeed in making these improvements to our technology infrastructure in a timely manner or at all. If we are unable to anticipate and respond to the demand for new services, products and technologies on a timely and cost-effective basis and to adapt to technological advancements and changing standards, we may be unable to compete effectively, which would have a material adverse effect on our business, financial condition and results of operations. Moreover, we may incur substantial development, sales and marketing expenses and expend significant management effort to add new products or services to our trading platforms. Even after incurring these costs, we ultimately may not realize any, or may realize only small amounts of, revenues for these new products or services. Consequently, if revenue does not increase in a timely fashion as a result of these expansion initiatives, the up-front costs associated with expansion may exceed revenue and reduce our working capital and income.

Regulation NMS, and changes in Regulation NMS, may adversely affect our businesses.

On April 6, 2005, the SEC adopted Regulation NMS, which is a set of regulations that will govern certain aspects of trading on securities market centers. Its provisions are scheduled to become effective at various points throughout 2006. One of the principal features of Regulation NMS is the modernization of the "trade-through" or "order protection" rule. Among other things, this rule requires market centers to establish and maintain procedures to prevent "trade-throughs," which are the executions of orders at a price inferior to the best bid or offer displayed by another market center at the time of execution. This aspect of Regulation NMS will protect and apply only to quotes available for immediate execution. The "trade through" rule implemented by Regulation NMS could increase competition between markets.

Regulation NMS will also impose a cap of \$0.003 per share on the access fees charged by market centers to members (or customers) and non-members, based on executions against the best bid or best offer displayed through consolidated quote systems. As a result, the transaction fees that we may charge for executions against our best bid and offer will be capped, which could decrease the amount of transaction fees that we earn and prevent us from increasing our revenues by charging higher prices. The imposition of a cap on access fees could have an adverse effect on certain of our businesses.

We have begun to develop our business strategy and alter our business in consideration of the rules of Regulation NMS. There is no assurance, however, that Regulation NMS will be implemented in a timely manner or in its current form. Any delay or difficulties that arise in the implementation of Regulation NMS, as well as any amendment to Regulation NMS, could create uncertainty and adversely affect our financial condition and results of operations.

The successful implementation and operation of the NYSE Hybrid MarketSM faces a number of significant challenges and depends on a number of factors that will be outside our control.

We are currently working on implementing the NYSE Hybrid MarketSM, which is intended to integrate into one platform aspects of both the physically-convened auction market and automated electronic execution. This effort is our response to the request from both market professionals and individual investors for greater choice and flexibility in buying and selling stocks on the NYSE. The NYSE Hybrid MarketSM is also our strategy for adapting to the revised "trade through" rule adopted by the SEC on April 6, 2005 as a part of Regulation NMS, which prohibits trading-through quotations that are displayed by another market and immediately accessible through automatic execution. If successfully implemented, we expect that the NYSE Hybrid MarketSM will change the way that securities are traded on the NYSE and will differentiate the NYSE from electronic trading venues. This initiative is scheduled to launch in phases during 2006.

In December 2005, the NYSE initiated the first phase of a pilot to test selected features and functionality of the NYSE Hybrid MarketSM among a limited number of securities approved by the SEC. As of March 3, 2006, 147 securities listed on the NYSE have been activated for inclusion in this phase of the pilot. To date, NYSE Hybrid MarketSM software is functioning as expected, and all implemented features are being actively exercised by trading floor professionals. However, technological, functional, or other issues with respect to NYSE Hybrid MarketSM may not emerge as additional features and functionality are introduced through subsequent pilot phases over the next several months. Additionally, the need to make changes to the plans for the NYSE Hybrid MarketSM or delays in or lack of SEC approval may delay the implementation or operation of the NYSE Hybrid MarketSM.

The successful implementation of the NYSE Hybrid MarketSM faces a number of significant challenges, including the difficulties of developing and implementing novel technology and the ability and willingness of specialists to build new technology platforms. The success of the NYSE Hybrid MarketSM also depends on the SEC's timely approval of the necessary rule changes. SEC action on the rule changes is pending, and the NYSE Hybrid MarketSM may not be implemented in the form that the NYSE currently foresees.

In addition, as a novel technology and method of trading, there is no assurance that the NYSE Hybrid MarketSM will function as it is currently anticipated to function, or that customers will accept and use the services that it offers. The operation of the NYSE Hybrid MarketSM also places greater demands on NYSE Regulation, and specifically market surveillance.

Any delay or difficulties in implementing or operating the NYSE Hybrid MarketSM may have a material adverse effect on our ability to compete and our operating results, particularly if the NYSE Hybrid MarketSM is not implemented by the time that first phase of Regulation NMS goes into effect. Currently, the first phase of Regulation NMS is scheduled to go in effect in June 29, 2006. Although the NYSE expects that it will be able to be in compliance with Regulation NMS by June 29, 2006, it expects that it will not be able to implement all of the planned features and functionalities of the NYSE Hybrid MarketSM on the effective date of this first phase unless the SEC postpones this date. In addition, any unwillingness by our customers to accept or use the NYSE Hybrid MarketSM services may also have an adverse impact on our ability to compete and on our operating results. For a discussion of the NYSE Hybrid MarketSM, see "Business Information About the NYSE The NYSE Hybrid Market Initiative."

We intend to enter or increase our presence in established trading markets, such as the U.S. options or futures markets or non-U.S. securities markets. Demand and market acceptance for our products and services within these markets will be subject to a high degree of uncertainty and risks and may affect our growth potential.

We intend to enter or increase our presence in certain trading markets, such as the U.S. options and futures markets or non-U.S. securities markets, which already possess established competitors. As a result, demand and market acceptance for our products and services within these markets will be subject to a high degree of uncertainty and risk. If we are unable to enter or increase our presence in these markets and compete successfully, we may not generate sufficient revenues from these products and services.

Our future growth and success may depend in part on our ability to compete with and penetrate the non-U.S. securities markets. However, we may not be successful in competing with or penetrating these markets. Attracting customers in certain countries may be subject to a number of risks, including currency exchange rate risk, difficulties in enforcing agreements or collecting receivables, longer payment cycles, compliance with the laws or regulations of foreign countries, and political and regulatory uncertainties.

Increased investor interest in other investment products could have a material adverse effect on our businesses.

Trading fees account for a significant proportion of our revenues. Increased investor interest in investment products that we do not trade may result in a reduction in order flow, and may therefore have a material adverse effect on our business, financial condition and operating results.

The loss of key personnel may adversely affect our business.

We are dependent upon the contributions of our senior management team and other key employees, as well as key staff of NYSE Regulation, for our success. With the exception of John A. Thain, our chief executive officer, who entered into a letter agreement with the NYSE, these individuals do not have agreements relating to their employment with us. If one or more of these executives, or other key employees, were to cease to be employed by us, we could be adversely affected. In particular, we may have to incur costs to replace senior executive officers or other key employees who leave, and our ability to execute our business strategy could be impaired if we are unable to replace such persons in a timely manner.

We may be at greater risk from terrorism than other companies.

Given the NYSE's position as the world's largest cash equities market, its prominence in the U.S. and global securities industry, and the concentration of many of its properties and personnel in lower Manhattan, we may be more likely than other companies to be a direct target of, or an indirect casualty of, attacks by terrorists or terrorist organizations.

It is impossible to predict the likelihood or impact of any terrorist attack on the securities industry generally or on our business. In the event of an attack or a threat of an attack, our security measures and contingency plans may be inadequate to prevent significant disruptions in our business, technology or access to the infrastructure necessary to maintain our business. For a discussion of some of our security measures and contingency plans, see "Business Security Measures and Contingency Plans." Damage to our facilities due to terrorist attacks may be significantly in excess of any amount of insurance received, or we may not be able to insure against such damage at a reasonable price or at all. The threat of terrorist attacks may also negatively affect our ability to attract and retain employees. In addition, terrorist attacks may cause instability or decreased trading in the securities markets, including trading on exchanges. Any of these events could have a material adverse effect on our business, financial condition and operating results.

We operate in a highly regulated industry, and may be subject to censures, fines and other legal proceedings if we fail to comply with our legal and regulatory obligations.

We operate in a highly regulated industry and are subject to extensive regulation. The securities industry is subject to extensive governmental regulation and could be subject to increased regulatory scrutiny. As a matter of public policy, these regulations are designed to safeguard the integrity of the securities and other financial markets and to protect the interests of investors in those markets. The SEC regulates the U.S. securities exchanges and has broad powers to audit, investigate and enforce compliance with its rules and regulations and impose sanctions for non-compliance. Our ability to comply with applicable laws and rules is largely dependent on our establishment and maintenance of appropriate systems and procedures, as well as our ability to attract and retain qualified personnel.

The SEC is vested with broad enforcement powers to censure, fine, issue cease-and-desist orders, prohibit us from engaging in some of our businesses or suspend or revoke the registration of our subsidiaries as national securities exchanges. In the case of actual or alleged noncompliance with regulatory requirements, NYSE Group could be subject to investigations and administrative or judicial proceedings that may result in substantial penalties, including revocation of a subsidiary's registration as a national securities exchange. Any such investigation or proceeding, whether successful or unsuccessful, would result in substantial costs and diversions of resources and might also harm our business reputation, any of which may have a material adverse effect on our business, financial condition and operating results.

In addition, there may be a conflict between the self-regulatory responsibilities of certain of our businesses and some of the market participants or customers of our subsidiaries. Any failure by us to diligently and fairly regulate our member organizations or to otherwise fulfill our regulatory obligations could significantly harm our reputation, prompt SEC scrutiny and adversely affect our business.

Damage to our reputation could have a material adverse effect on our businesses.

One of our competitive strengths is our strong reputation and brand name. Our reputation could be harmed in many different ways, including by our regulatory governance or technology failures. Damage to our reputation could cause some issuers not to list their securities on our exchanges, as well as reduce the trading volume on our exchanges. This, in turn, may have a material adverse effect on our business, financial condition and operating results.

We will face restrictions with respect to the way in which we conduct certain of our operations, and may experience certain competitive disadvantages if we do not receive SEC approval for new business initiatives or receive them in an untimely manner.

We operate two registered national securities exchanges the NYSE and NYSE Arca. Pursuant to the Securities Exchange Act of 1934, as amended (the "Exchange Act"), we are responsible for regulating our member organizations through the adoption and enforcement of rules governing the trading activities, business conduct and financial responsibility of our member organizations and individuals associated with them. Changes to our rules are generally subject to the approval of the SEC, which publishes proposed rule changes for public comment. Changes to our certificate of incorporation or bylaws and changes to the certificate of incorporation, bylaws or operating agreement, or rules of certain of our subsidiaries, to the extent that these changes could affect the activities of our exchanges, must also be approved. We may from time to time seek to engage in new business activities, some of which may require changes to our governing rules.

Any delay or denial of a requested approval could cause us to lose business opportunities. Our competitive position could be significantly weakened if our competitors are able to obtain SEC approval for new functionalities faster and with less difficulty than we are, or if approval is not required for our competitors. Competitors that are not registered exchanges are subject to less stringent regulation. In

addition, as we seek to expand our product base, we could become subject to the oversight of additional regulatory bodies.

NYSE Arca has had discussions with SEC staff regarding a potential pilot program to trade and quote options on certain ETFs in penny increments, but any proposal that NYSE Arca may make on this issue may be denied by the SEC.

NYSE Arca has had discussions with SEC staff regarding a potential pilot program to display, rank, quote and execute option orders on certain ETFs in penny increments. Currently, options are displayed, ranked, quoted and executed in nickel and dime increments, although the underlying equity security may be displayed, ranked, quoted and executed in penny increments (or, after the implementation of Regulation NMS, sub-penny increments if the quote, order or indication of interest for the security is less than \$1.00). Any proposal that the NYSE Arca may make on this issue will require approval from the SEC.

Currently, only certain option market participants have the capability to execute orders for options in penny increments; however, these orders are not executed in a manner that is transparent to all option market participants. Although these market participants are able to execute orders in penny increments, they still must quote and display their orders in nickel or dime increments. NYSE Arca's potential pilot program would provide transparent option order display and execution to all market participants. It would also seek to provide improved and enhanced pricing opportunities for all market participants, as the fair value of options are often in part dependent upon the fair price of the underlying equity security. Some industry participants oppose such a program under the belief that it would overwhelm the capacity limits of existing option quote processing systems.

In the event that the SEC approves displaying, quoting and executing options in any increments under a nickel, we believe that we will be well positioned to adequately handle the process. Failure of the SEC to approve the ability to display, rank, quote and execute orders for options in increments under a nickel could limit to a material extent our ability to gain options trading share or realize the growth opportunities and other benefits that we anticipate.

Regulatory developments could have a negative impact on our businesses.

Securities exchanges have been the subject of increasing political and public scrutiny in recent years in response to a number of developments and inquiries. In November 2004, the SEC proposed corporate governance, transparency, oversight and ownership rules for registered national securities exchanges and other self-regulatory organizations ("SROs") and issued a concept release examining the efficacy of self-regulation. The concept release also solicited public comment concerning the level of market data fees, following several years of claims from some competitors and data intermediaries that market data fees and revenues are excessive.

We cannot predict whether, or in what form, any regulatory changes will take place, or their impact on our business. Changes in the rules and regulations affecting SROs could require us to change the manner in which we conduct our business or govern ourselves. They could also make it more difficult or more costly for us to conduct our existing businesses or to enter into new businesses. A determination by the SEC, for example, to link market data fees to marginal costs, to become even more involved in the market data rate-setting process, or to reduce the current levels of market data fees could have a material adverse effect on our market data revenues. Moreover, given the importance of regulation in the securities industry, it is possible that any regulatory developments could have a material adverse effect on our business, as well as the business of other participants in the securities industry. For a discussion of recent regulatory developments, see "Regulation Recent Regulatory Developments."

We are required to allocate funds and resources to NYSE Regulation.

We are required to allocate significant resources to NYSE Regulation. This dedication of resources may limit our ability to reduce our expense structure and to dedicate funds and human resources in other areas. Both NYSE Market and NYSE Arca have entered into services agreements with NYSE Regulation pursuant to which they are obligated to provide funding to NYSE Regulation in exchange for regulatory services that NYSE Regulation provides to them. The obligations to fund NYSE Regulation under the agreements covering those services could negatively affect the cash available to us and our ability to invest in or pursue other opportunities that may also be beneficial to our stockholders. For a discussion of our regulatory structure and responsibilities, see "Regulation NYSE Regulation."

Any conflicts of interest between us and NYSE Regulation may have a material adverse effect on our business.

NYSE Regulation will regulate and monitor the activities on our securities exchanges and enforce issuer and member organization compliance with applicable law and the rules of the exchanges. In a recent rule proposal, the SEC noted that there is an inherent conflict that exists within every SRO between its regulatory functions, on the one hand, and its member organizations, market operations, listed issuers, and stockholders, on the other hand. The SEC has also expressed concern about the conflicts of interest that may exist when a for-profit entity owns an SRO. The for-profit entity's goal of maximizing stockholder value might conflict with the SRO's self-regulatory responsibilities imposed by the securities laws. For example, the for-profit entity might have an incentive to commit insufficient funds to the regulatory operations of the SRO, or use the disciplinary powers of the SRO to generate revenue for the for-profit entity by disciplining member organizations that operate or participate in competing trading systems. In addition, the regulatory responsibilities imposed by the U.S. securities laws (such as encouraging low-cost trading and competitive markets) may conflict with our profit-oriented goals as a public company. There may be more opportunities for conflicts of interest to arise when SROs regulate listed companies. Additional conflicts of interest arise where a company (such as NYSE Group) lists its securities on the national securities exchange that it owns. The listing of our common stock on the NYSE could potentially create a conflict of interest between the NYSE's regulatory responsibility to vigorously oversee the listing and trading of securities on the NYSE, on the one hand, and our commercial and economic interest, on the other hand. The SRO's disciplinary power over NYSE Group's competitors may also raise questions.

We have implemented structural protections to minimize these potential conflicts of interest. For a discussion of some of these structural protections, see "Regulation NYSE Regulation Structure, Organization and Governance of NYSE Regulation." These structural protections, however, may not be adequate to manage (and, in any event, will not eliminate) these potential conflicts of interest. For example, certain of the independent directors of our board of directors will serve as directors on the NYSE Regulation board of directors. In the event that we fail to manage these potential conflicts of interest adequately, we could impair the effectiveness of NYSE Regulation or otherwise incur reputational damage, which could have a material adverse effect on our business, financial condition and operating results.

Certain of our businesses rely on specialists for effecting some transactions. Any failure by specialists to perform their function effectively or to comply with their regulatory obligations may have a material adverse effect on our business.

Specialists are an important component of the market structure within the NYSE. For example, specialists assist in providing liquidity and minimizing volatility. A deterioration in the performance of specialists, or misconduct by specialists, could damage our reputation and reduce our ability to compete with other securities exchanges for listings and order flow. The profitability of the seven specialist units currently active on the NYSE has fluctuated significantly since 2002.

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The increased use of technology (and, in particular, computers) in securities executions also is changing the business models of specialists. Their failure to adapt their business models to this changing environment in general, and to the NYSE Hybrid MarketSM in particular, would further undermine the differentiation, and therefore the competitive position, of NYSE Market. For a discussion of certain litigation and SEC action relating to specialists, see "Business Proceedings In re NYSE Specialists Securities Litigation."

We derive significant revenues from activities related to our trading floor, including trading fees, facility and equipment fees and trading license fees. The migration of trading volume away from the trading floor and into our or others' electronic trading platforms could adversely affect these revenues.

Market fluctuations and other risks beyond our control could significantly reduce demand for our services and harm our business.

The volume of securities transactions and the demand for listings and our other products and services are directly affected by economic, political and market conditions in the United States and elsewhere in the world that are beyond our control, including:

broad trends in business and finance;

terrorism and war;

concerns over inflation and the level of institutional or retail confidence;

changes in government monetary policy and foreign currency exchange rates;

the availability of short-term and long-term funding and capital;

the availability of alternative investment opportunities;

changes in the level of trading activity;

changes and volatility in the prices of securities;

changes in tax policy;

the level and volatility of interest rates;

legislative and regulatory changes, including the potential for regulatory arbitrage among U.S. and non-U.S. markets if significant policy differences emerge among markets; and

unforeseen market closures or other disruptions in trading.

General economic conditions affect securities markets in a variety of ways, from determining availability of capital to influencing investor confidence. Poor economic conditions also have an impact on the process of raising capital by reducing the number or size of securities offerings or listings. The economic climate in recent years has been characterized by challenging business and economic conditions. During 2000 through early 2003, the major U.S. market indices experienced severe declines. The weak and uncertain economic climate, together with corporate governance and accounting concerns, contributed to a reduction in corporate transactions and a generally more difficult business environment. In addition, the United States and other countries in which we hope to offer our services have suffered acts of war or terrorism or other armed hostilities. These or similar acts have in the past increased or prolonged, and may in the future increase or prolong, negative economic conditions. Adverse changes in the economy or the outlook for the securities industry can have a negative impact on our revenues through

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declines in trading volume, new listings and demand for market data. Generally adverse economic conditions may also have a disproportionate effect on our business. Because our infrastructure and overhead will be based on assumptions of certain levels of market activity, significant declines in trading volumes, new listings or

demand for market data may have a material adverse effect on our business, financial condition and operating results.

A significant portion of our revenues will depend, either directly or indirectly, on our transaction-based business, which, in turn, is dependent on our ability to attract and maintain order flow, both in absolute terms and relative to other market centers. If the amount of trading volume on the NYSE or NYSE Arca decreases, our revenue from transaction fees will decrease. There may also be a reduction in revenue from market data fees. If our share of total trading volume decreases relative to our competitors, we may be less attractive to market participants as a source of liquidity and may lose additional trading volume and associated transaction fees and market data fees as a result. In addition, declines in our share of trading volume could adversely affect the growth, viability and importance of various of our market information products, which will constitute an important portion of our revenues.

We also expect to generate a significant portion of our revenues from listing fees. Among the factors affecting companies' decision to go public and/or list their shares on U.S. markets are general economic conditions, industry-specific circumstances, capital market trends, mergers and acquisitions environment and regulatory requirements. The extent to which these and other factors cause companies to remain privately owned or decide not to list their shares in the United States may have a material adverse effect on our business, financial condition and operating results.

The financial services industry and, particularly, the securities transactions business are dynamic, uncertain and highly competitive environments. Accordingly, we expect exchange consolidation and member organization consolidation to persist in the future. This environment has led to business failures and has encouraged the introduction of alternative trading venues with varying market structures and new business models. Well-capitalized competitors from outside the United States may seek to expand their operations in the U.S. market. In addition, the financial services industry is subject to extensive regulation, which may change dramatically in ways that affect industry market structure. If we are unable to adjust in a timely manner to structural changes within our markets, technological and financial innovation, and other competitive factors, our business will suffer.

Insufficient systems capacity or systems failure could harm our business.

Our business depends on the performance and reliability of the computer and communications systems supporting it. In particular, heavy use of our platforms and order routing systems during peak trading times or at times of unusual market volatility could cause our systems to operate slowly or even to fail for periods of time. Our system capacity requirements could grow significantly in the future as the result of a variety of factors, including the implementation of the NYSE Hybrid MarketSM, and NYSE Arca's anticipated expansion of its options trading activities. If our systems cannot be expanded to handle increased demand, or otherwise fail to perform, we could experience disruptions in service, slower response times, delays in introducing new products and services and loss of revenues. In addition, our trading activities may be negatively affected by system failures of other trading systems, as a result of which we may be required to suspend trading activity in particular stocks or, in the case of NYSE Arca, cancel previously executed trades under certain circumstances.

Failure to maintain systems or to ensure sufficient capacity may also result in a temporary disruption of our regulatory and reporting functions. These consequences, in turn, could result in lower trading volumes, financial losses, decreased customer service and satisfaction, litigation or customer claims, or regulatory sanctions.

We have experienced systems failures in the past. It is possible that we will experience systems failures in the future, or periods of insufficient systems capacity or network bandwidth, power or telecommunications failure, acts of God or war, terrorism, human error, natural disasters, fire, power loss, sabotage, hardware or software malfunctions or defects, computer viruses, intentional acts of vandalism or similar events. Any system failure that causes an interruption in service or decreases the responsiveness of

our service could impair our reputation and negatively impact our revenues. We also rely on third parties for systems support. Any interruption in these third-party services or deterioration in the performance of these services could also be disruptive to our business (and the NYSE Hybrid MarketSM, in particular) and have a material adverse effect on our business, financial condition and operating results.

Our networks and those of our third-party service providers may be vulnerable to security risks, which could result in wrongful use of our information or cause interruptions in our operations that cause us to lose trading volume and result in significant liabilities. We will also incur significant expense to protect our systems.

We expect that the secure transmission of confidential information over public networks will be a critical element of our operations. Our networks and those of our third-party service providers may be vulnerable to unauthorized access, computer viruses and other security problems. Persons who circumvent security measures could wrongfully access and use our information or cause interruptions or malfunctions in our operations. Any of these events could cause us to lose trading volume. We will be required to expend significant further resources to protect against the threat of security breaches or to alleviate problems, including reputational harm and litigation, caused by breaches. Our security measures are costly, and may prove to be inadequate and result in system failures and delays that could cause us to lose business.

Our revenues from SIAC could significantly decrease if SIAC loses its major customers.

The Securities Industry Automation Corporation ("SIAC"), which is two-thirds owned by the NYSE and one-third owned by AMEX, is the principal vendor of the NYSE's data processing and software development services. In 2005, SIAC's non-NYSE revenues accounted for 16.2% of the NYSE's revenues, net of Section 31 fees. Historically, SIAC has relied on three principal customers for a majority of its revenues: (1) the NYSE, (2) AMEX and (3) the National Securities Clearing Corporation and Fixed Income Clearing Corporation. In 2005, the NYSE was the source of 58% of SIAC's revenues; AMEX was the source of 16.4% of SIAC's revenues; and the National Securities Clearing Corporation and Fixed Income Clearing Corporation were the source of 9.1% of SIAC's revenues. The National Securities Clearing Corporation and Fixed Income Clearing Corporation have entered into separate agreements with SIAC, pursuant to which the services previously provided by SIAC are being phased out. In addition, AMEX has sent a notice to SIAC indicating that it intends to materially decrease its use of SIAC's services. If AMEX materially decreases its use of SIAC's services, our revenues from SIAC will be adversely affected. To the extent that AMEX does not bear a portion of the costs associated with this decrease (including transition costs and an appropriate share of SIAC's current overhead as SIAC seeks to mitigate the overhead costs), or to the extent that we are not able to reduce our costs associated with SIAC to offset the amount of reduction in revenue from SIAC (which we may not be able to do), our profits and results of operations may be adversely affected.

Any failure by us to protect our intellectual property rights, or allegations that we have infringed the intellectual property rights of others, could adversely affect our business.

We own the rights to a number of trademarks, service marks, trade names, copyrights and patents used in our businesses. To protect our intellectual property rights, we rely on a combination of trademark laws, copyright laws, patent laws, trade secret protection, confidentiality agreements and other contractual arrangements with our affiliates, customers, strategic investors and others. The protective steps taken may be inadequate to deter misappropriation of proprietary information. We may be unable to detect the unauthorized use of, or take appropriate steps to enforce, our intellectual property rights. Failure to protect our intellectual property adequately could harm our reputation and affect our ability to compete effectively. Further, defending our intellectual property rights may require significant financial and managerial resources, the expenditure of which may have a material adverse effect on our business, financial condition and operating results.

In the future we may be subject to intellectual property rights claims, which may be costly to defend, could require the payment of damages and could limit our ability to use certain technologies. Some of our competitors currently own patents and have actively been filing patent applications in recent years, some of which may relate to our trading platforms and business processes. As a result, we could in the future face allegations that we have infringed or otherwise violated the intellectual property rights of third parties. Any intellectual property claims, with or without merit, could be time-consuming, expensive to litigate or settle and could divert management resources and attention. Successful challenges against us could require us to modify or discontinue our use of technology where such use is found to infringe or violate the rights of others, or require us to obtain licenses from third parties at material cost. For a discussion of litigation involving our intellectual property, see "Business Legal Proceedings."

We are subject to significant litigation risk and potential securities law liability.

Many aspects of our business involve substantial liability risks. These risks include, among others, potential liability from disputes over terms of a trade or from claims that a system or operational failure or delay caused monetary losses to a customer, that we entered into an unauthorized transaction or that we provided materially false or misleading statements in connection with a transaction. Dissatisfied customers frequently make claims against their service providers regarding quality of trade execution, improperly settled trades, mismanagement or even fraud. We could be exposed to substantial liability under federal and state laws and court decisions, as well as rules and regulations promulgated by the SEC. We could incur significant legal expenses defending claims, even those without merit. In addition, an adverse resolution of any future lawsuit or claim against us may have a material adverse effect on our business, financial condition and operating results. For a discussion of certain legal claims against us, see "Business Legal Proceedings."

The uncertainty of the annual auction process for the sale of trading licenses may adversely affect our business.

The right to trade securities on the facilities of the NYSE is sold through annual auctions, as described under "Business Information About the NYSE Trading Licenses." On January 4, 2006, the NYSE completed its first modified Dutch auction of trading licenses, as a result of which 1,274 trading licenses were sold at an annualized price of \$49,290 per license. The NYSE has made available a maximum of 1,366 trading licenses, and any unsold trading licenses can be purchased at a ten percent premium to the established auction price, on a pro rata basis, during the course of 2006. The auction process involves significant uncertainty regarding the number and price of trading licenses that will be sold in a given year, which could result in revenue that fluctuates and our inability to meet our financial plans. In addition, the trading license auction could reduce use of, and trading execution on, the NYSE's trading facilities.

Our business is difficult to evaluate because the NYSE has not historically been operated as a for-profit company and Archipelago has a limited operating history.

Our business consists of the combined businesses of the NYSE and Archipelago, and is operated as a for-profit business (other than NYSE Regulation). Historically, the NYSE has operated as a not-for-profit entity. In addition, although Archipelago historically has been operated as a for-profit entity, its operating history is limited. As a result, the historical financial condition of the NYSE and Archipelago may not adequately predict the future financial condition of our business.

Many of our current stockholders are also former members who have the right to trade on the NYSE and NYSE Arca and their interests may differ from those of other stockholders.

Many of our current stockholders are both stockholders and holders of licenses or permits to trade on the NYSE and NYSE Arca. Stockholders who are also holders of trading licenses or permits may have interests that are different from, or that could conflict with, your interests. Because of their common

interests, these investors may vote in the same way. As of _____, 2006, holders of trading licenses and permits on the NYSE or NYSE Arca own approximately _____% of our outstanding common stock. If these investors vote together on a given matter, they collectively may have the ability to influence the decision, which could involve the election of our directors, the appointment of new management and the potential outcome of any matter submitted to a vote of our stockholders, including mergers, the sale of substantially all of our assets and other extraordinary events. In addition, each of the lead underwriters of this offering is also a holder of a NYSE trading license.

Risks Relating to an Investment in Our Common Stock

Our stock has a very limited trading history. Volatility in our stock price could adversely affect our stockholders.

Our stock has been publicly traded since March 8, 2006 and the market price of our common stock may be volatile. In addition, only approximately 16.4% of our outstanding common stock is currently publicly traded, and only approximately _____% shares of our outstanding common stock will be publicly traded immediately after this offering. The limited public float could cause volatility in our stock price.

In addition, broad market and industry factors may adversely affect the market price of our common stock, regardless of our actual operating and financial performance. Factors that could cause fluctuations in our stock price may include, among other things:

actual or anticipated variations in quarterly operating results;

changes in financial estimates by us or by any securities analysts who might cover our stock;

conditions or trends in our industry, including regulatory changes or changes in the securities marketplace;

changes in the market valuations of exchanges and other trading facilities in general, or other companies operating in the securities industry;

announcements by us or our competitors of significant acquisitions, strategic partnerships or divestitures;

announcements of investigations or regulatory scrutiny of our operations or lawsuits filed against us;

additions or departures of key personnel; and

sales of our common stock, including sales of our common stock by our directors and officers or our strategic investors.

Certain underwriters for this offering are also selling stockholders and, therefore, have interests in this offering beyond customary underwriting discounts and commissions.

Certain underwriters for this offering are participating as selling stockholders in this offering. There may be a conflict of interest between their interests as selling stockholders (*i.e.*, to maximize the value of their investment) and their respective interests as underwriters (*i.e.*, in negotiating the public offering price). As participants in this offering that are seeking to realize the value of their investment in us, these underwriters have interests beyond customary underwriting discounts and commissions.

Our share price may decline due to the large number of shares eligible for future sale.

Sales of substantial amounts of our common stock, or the possibility of these sales, may adversely affect the market price of our common stock. See "Shares Eligible for Future Sale." These sales may also

make it more difficult for us to raise capital through the issuance of equity securities at a time and at a price that we deem appropriate.

As of March 7, 2006, there were 155,501,605 shares of NYSE Group common stock outstanding (which does not include 1,801,921 shares of our common stock in treasury, of which 1,645,415 shares are held by Pacific Exchange, Inc., an indirect wholly owned subsidiary of NYSE Group). In addition, approximately 8,500,000 shares of our common stock have been reserved for issuance pursuant to grants to our officers and employees and certain shares of our common stock may be issued to directors, officers and employees under the NYSE Group, Inc. 2006 Stock Incentive Plan. See "Management Compensation of Directors and Executive Officers."

Of our shares outstanding, after this offering, approximately _____ shares will continue to be subject to restrictions on transfer that will expire on March 7, 2007, _____ shares will continue to be subject to restrictions on transfer that will expire on March 7, 2008, and _____ shares will continue to be subject to restrictions on transfer that will expire on March 7, 2009. Our board of directors has the right, in its discretion, to remove the transfer restrictions earlier, in whole or in part, on any of these shares of NYSE Group common stock, subject to the lock-up agreement entered into between NYSE Group, its executive officers and directors, on the one hand, and the underwriters, on the other hand. For a discussion of these lock-up agreements see "Underwriting Lock-Up Agreements." Removal of the transfer restrictions from all or a part of these shares for any reason may lead to significant numbers of shares of our common stock becoming available for sale, which may adversely affect the then-prevailing market price of our common stock.

We may seek to raise additional funds, finance acquisitions or develop strategic relationships by issuing capital stock.

We may seek to raise additional funds, finance acquisitions or develop strategic relationships by issuing equity or convertible debt securities, which would reduce the percentage ownership of our existing stockholders. Furthermore, any newly issued securities could have rights, preferences and privileges senior to those of our common stock.

We do not expect to pay dividends on NYSE Group common stock in the immediate future.

We do not expect to pay any dividends in the immediate future. Any determination to pay dividends in the future will be at the discretion of our board of directors and will depend upon our results of operations and financial condition, contractual restrictions, restrictions imposed by applicable law or our business and investment strategy, and other factors that our board of directors deems relevant. Accordingly, our board of directors might not implement a policy to pay periodic dividends.

Provisions of our organizational documents and Delaware law may delay or deter a change of control of NYSE Group.

Our organizational documents contain provisions that may have the effect of discouraging, delaying or preventing a change of control of, or unsolicited acquisition proposals for, NYSE Group that a stockholder might consider favorable. These include provisions:

vesting our board of directors with sole power to set the number of directors;

limiting the persons that may call special stockholders' meetings;

limiting stockholder action by written consent; and

requiring supermajority stockholder approval with respect to certain amendments to our certificate of incorporation and bylaws.

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In addition, its organizational documents include provisions that:

restrict any person (either alone or together with its related persons) from voting or causing the voting of shares of stock representing more than 10% of our outstanding voting capital stock (including as a result of any agreement by any other persons not to vote shares of stock); and

restrict any person (either alone or together with its related persons) from beneficially owning shares of stock representing more than 20% of the outstanding shares of any class or series of our capital stock.

Furthermore, our board of directors has the authority to issue shares of preferred stock in one or more series and to fix the rights and preferences of these shares without stockholder approval. Any series of NYSE Group preferred stock is likely to be senior to the NYSE Group common stock with respect to dividends and liquidation rights. The ability of our board of directors to issue preferred stock also could have the effect of discouraging unsolicited acquisition proposals, thus adversely affecting the market price of the common stock.

In addition, Delaware law makes it difficult for stockholders that recently have acquired a large interest in a corporation to cause the merger or acquisition of the corporation against the directors' wishes. Under Section 203 of the Delaware General Corporation Law, a Delaware corporation may not engage in any merger or other business combination with an interested stockholder for a period of three years following the date that the stockholder became an interested stockholder except in limited circumstances, including by approval of the corporation's board of directors.

If we are unable to favorably assess the effectiveness of our internal controls over financial reporting, or if our Independent Registered Public Accounting Firm is unable to provide an unqualified attestation report on our assessment, our stock price could be adversely affected.

Pursuant to Sections 302 and 404 of the Sarbanes-Oxley Act of 2002, in connection with our annual report on Form 10-K for the fiscal year ending December 31, 2007, our management will be required to certify to and report on, and our Independent Registered Public Accounting Firm will be required to attest to, the effectiveness of our internal controls over financial reporting as of December 31, 2007. The rules governing the standards that must be met for management to assess our internal controls over financial reporting are new and complex, and require significant documentation, testing and possible remediation. We currently are in the process of reviewing, documenting and testing our internal controls over financial reporting. The continuing effort to comply with regulatory requirements relating to internal controls will likely cause us to incur increased expenses and diversion of management's time and other internal resources. We also may encounter problems or delays in completing the implementation of any changes necessary to make a favorable assessment of our internal controls over financial reporting. In addition, in connection with the attestation process by our Independent Registered Public Accounting Firm, we may encounter problems or delays in completing the implementation of any requested improvements or receiving a favorable attestation. If we cannot favorably assess the effectiveness of our internal controls over financial reporting, or if our Independent Registered Public Accounting Firm is unable to provide an unqualified attestation report on our assessment, investor confidence and the stock price of our common stock could be adversely affected.

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements. These statements may include statements regarding the period following completion of this offering. In some cases, you can identify these statements by forward-looking words such as "may," "might," "will," "should," "expect," "plan," "anticipate," "believe," "estimate," "predict," "potential" or "continue," and the negative of these terms and other comparable terminology. These forward-looking statements, which are subject to known and unknown risks, uncertainties and assumptions about us, may include projections of our future financial performance based on our growth strategies and anticipated trends in our business. These statements are only predictions based on our current expectations and projections about future events. There are important factors that could cause our actual results, level of activity, performance or achievements to differ materially from the results, level of activity, performance or achievements expressed or implied by the forward-looking statements. In particular, you should consider the numerous risks and uncertainties described under "Risk Factors."

These risks and uncertainties are not exhaustive. Other sections of this prospectus describe additional factors that could adversely impact our business and financial performance. Moreover, we operate in a very competitive and rapidly changing environment. New risks and uncertainties emerge from time to time, and it is not possible to predict all risks and uncertainties, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

Although we believe the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, level of activity, performance or achievements. Moreover, neither we nor any other person assumes responsibility for the accuracy or completeness of any of these forward-looking statements. You should not rely upon forward-looking statements as predictions of future events. We are under no duty to update any of these forward-looking statements after the date of this prospectus to conform our prior statements to actual results or revised expectations and we do not intend to do so.

Forward-looking statements include, but are not limited to, statements about:

our business' possible or assumed future results of operations and operating cash flows;

our business' strategies and investment policies;

our business' financing plans and the availability of capital;

our business' competitive position;

potential growth opportunities available to our business;

the risks associated with potential acquisitions or alliances by us;

the recruitment and retention of our officers and employees;

our expected levels of compensation;

our business' potential operating performance, achievements, productivity improvements, efficiency and cost reduction efforts;

the likelihood of success and impact of litigation;

our protection or enforcement of our intellectual property rights;

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our ability to successfully implement and operate the NYSE Hybrid MarketSM;

our expectation with respect to securities markets and general economic conditions;

our ability to keep up with rapid technological change; and

the impact of future legislation and regulatory changes on our business.

We caution you not to place undue reliance on the forward-looking statements, which speak only as of the date of this prospectus.

We expressly qualify in their entirety all forward-looking statements attributable to us or any person acting on our behalf by the cautionary statements contained or referred to in this section.

USE OF PROCEEDS

All of the shares of common stock being offered in this offering are being sold by the selling stockholders, including certain underwriters or their affiliates and certain of our executive officers. See "Principal and Selling Stockholders" and "Underwriting." We will not receive any proceeds from this offering. All proceeds from this offering, net of underwriters' discounts, will be received by the selling stockholders.

DILUTION

All of the shares of our common stock being sold in this offering were issued and outstanding prior to this offering. As a result, this offering will not have a dilutive effect on our stockholders' holdings of our common stock.

PRICE AND RELATED INFORMATION CONCERNING SHARES

Our common stock is listed on the NYSE and commenced trading on March 8, 2006 under the ticker symbol "NYX." Prior to that date, there was no public market for our common stock.

As of _____, 2006, there were _____ holders of record of our common stock. No dividends have ever been paid on our common stock. See "Dividend Policy."

On March 10, 2006, our common stock traded at a high of \$78.80 and a low of \$73.50. The following table sets forth, for the periods indicated, the high and low sale prices of our common stock, as reported on the NYSE.

Calendar Quarter	Price	
	High	Low
2006		
First Quarter (through March 10, 2006) ⁽¹⁾	\$ 88.00	\$ 66.98

(1) First quarter figures for 2006 are given for the period from March 7, 2006 (the date of the completion of the merger of the NYSE and Archipelago) to March 10, 2006.

DIVIDEND POLICY

We do not expect to pay any dividends in the immediate future. Any determination to pay dividends in the future will be at the discretion of our board of directors and will depend upon our results of operations and financial condition, contractual restrictions, restrictions imposed by applicable law, our business and investment strategy and other factors that our board of directors deems relevant. There is no assurance that our board of directors will determine to implement a policy to pay periodic dividends in the future.

CAPITALIZATION

The following table sets forth our consolidated capitalization as of December 31, 2005:

on an actual basis; and

as adjusted to give effect to (1) the merger of the NYSE and Archipelago, pursuant to which each NYSE member immediately prior to the merger was entitled to receive \$300,000 in cash and 80,177 shares of our common stock and each Archipelago stockholder immediately prior to the merger was entitled to receive one share of our common stock; and (2) the cash dividend of \$70,571 paid to each NYSE member prior to the merger.

This offering of our common stock will not affect our consolidated capitalization.

This table should be read together with the consolidated financial statements of the NYSE and Archipelago and the accompanying notes, and with "Management's Discussion and Analysis of Financial Condition and Results of Operations of NYSE Group and the NYSE" and "Archipelago's Management's Discussion and Analysis of Financial Condition and Results of Operations."

	As of December 31, 2005	
	Actual	As adjusted for the merger and dividend
		(unaudited)
		(in millions)
Cash and cash equivalents	\$	\$ 780.1
Long-term debt		
Stockholders' equity:		
Preferred stock		
Common stock		1,365.9
Total stockholders' equity		1,365.9
Total capitalization	\$	\$ 1,365.9

SELECTED FINANCIAL DATA

NYSE Group is a Delaware corporation formed for the purpose of consummating the business combination of the NYSE and Archipelago, which was completed on March 7, 2006. The merger of the NYSE and Archipelago has been treated as a purchase business combination for accounting purposes, with the NYSE designated as the acquirer. As such, the historical financial statements of the NYSE have become the historical financial statements of NYSE Group. Set forth below are selected historical financial data for: (1) the NYSE, as the predecessor to NYSE Group; and (2) Archipelago, as predecessor to NYSE Arca and which was acquired by NYSE Group on March 7, 2006 as a result of the merger. Because the merger was not consummated on or before December 31, 2005, the following selected historical financial data reflect the NYSE and Archipelago separately.

Selected Historical Financial Data of the NYSE (as the predecessor to NYSE Group)

The following selected consolidated financial data has been derived from the historical consolidated financial statements and related notes for the years ended December 31, 2001 through December 31, 2005. The information presented here is only a summary, and it should be read together with our consolidated financial statements set forth on pages F-1 to F-32 of this prospectus. The information set forth below is not necessarily indicative of NYSE Group's results of future operations and should be read in conjunction with "Selected Financial Data NYSE Management's Discussion and Analysis of Financial Condition and Results of Operations."

	Year ended December 31,				
	2005	2004	2003	2002	2001
	(in millions)				
Results of Operations					
Revenues:					
Activity assessment fees	\$ 594.6	\$ 359.8	\$ 419.7	\$ 290.4	\$ 358.1
Listing fees	342.7	329.8	320.7	299.6	297.2
Data processing fees	182.9	220.7	224.8	224.6	223.2
Market information fees	178.2	167.6	172.4	168.9	160.3
Trading fees	145.8	153.6	157.2	152.8	144.6
Regulatory fees	129.8	113.3	113.2	120.4	152.2
Facility and equipment fees	49.4	50.4	60.6	52.7	48.1
Membership fees	6.4	8.3	11.0	12.8	11.6
Investment and other income	87.9	45.8	43.6	48.7	78.3
Total revenues	1,717.7	1,449.3	1,523.2	1,370.9	1,473.6
Section 31 fees	594.6	359.8	419.7	290.4	358.1
Revenues, less Section 31 fees ⁽¹⁾	1,123.1	1,089.5	1,103.5	1,080.5	1,115.5
Expenses:					
Compensation	509.8	522.6	520.5	512.3	508.2
Systems and related support	124.1	138.6	146.0	143.6	151.8
Professional services	127.7	132.7	97.5	116.9	133.1
Depreciation and amortization	103.4	95.7	89.0	81.4	74.5
Occupancy	70.6	68.6	67.0	66.3	56.1
General and administrative	69.7	84.3	76.5	102.4	126.2
Archipelago merger and related exit costs ⁽²⁾	26.1				
Total expenses	1,031.4	1,042.5	996.5	1,022.9	1,049.9

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Income before provision for income taxes and minority interest	91.7	47.0	107.0	57.6	65.6
Provision for income taxes	48.9	15.8	45.2	18.7	22.7
Minority interest in income of consolidated subsidiary	2.0	1.0	1.3	2.3	3.3
Net income	\$ 40.8	\$ 30.2	\$ 60.5	\$ 36.6	\$ 39.6

As of December 31,

	2005	2004	2003	2002	2001
	(in millions)				
Balance Sheet					
Total assets	\$ 2,204.1	\$ 1,982.3	\$ 2,009.2	\$ 1,999.8	\$ 1,973.6
Current assets	\$ 1,464.2	\$ 1,264.6	\$ 1,293.9	\$ 1,227.6	\$ 1,225.9
Current liabilities	685.0	486.9	513.2	434.2	481.8
Working capital	\$ 779.2	\$ 777.7	\$ 780.7	\$ 793.4	\$ 744.1
Long term obligations ⁽³⁾	\$ 684.9	\$ 694.7	\$ 736.2	\$ 877.8	\$ 823.9
Equity of members	\$ 807.8	\$ 767.0	\$ 736.9	\$ 676.4	\$ 639.8

- (1) For a description of revenues, less Section 31 fees, see "Management's Discussion and Analysis of Financial Condition and Results of Operations of NYSE Group and the NYSE Sources of Revenue Activity Assessment Fees." We consider revenues, less Section 31 fees, to be a useful measure of results of operations because the NYSE pays Section 31 fees to the SEC and receives activity assessment fees from its member organizations clearing or settling trades. As a result, neither the size of Section 31 fees nor the size of activity assessment fees has an impact on the NYSE's net income.
- (2) Represents \$18.5 million in legal costs, \$3.9 million in severance payments and \$3.7 million in integration costs incurred in 2005 in connection with the merger with Archipelago.
- (3) Represents liabilities due after one year, including accrued employee benefits and the long term portion of deferred revenue.

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Selected Financial Data of Archipelago (as the predecessor to NYSE Arca)

The selected financial data presented below is derived from Archipelago's consolidated financial statements, which have been audited by Ernst and Young LLP, independent registered public accountants. Such selected financial data should be read in connection with Archipelago's consolidated financial statements and related notes included in this prospectus. Historical financial statement information may not be indicative of Archipelago's future performance.

	Year ended December 31,				
	2005(1)	2004(2)	2003	2002(3)	2001
(in millions, except per share data)					
Results of Operations					
Revenues ⁽⁵⁾ :					
Transaction fees	\$ 425.0	\$ 434.5	\$ 380.6	\$ 346.2	\$ 172.2
Activity assessment fees ⁽⁶⁾	48.0				
Market data fees ⁽⁷⁾	62.0	56.4	29.0	1.7	
Listing and other fees	6.4	0.4	0.5	0.3	
	<u>541.4</u>	<u>491.3</u>	<u>410.1</u>	<u>348.2</u>	<u>172.2</u>
Equity entitlements ⁽⁸⁾					(17.0)
	<u>541.4</u>	<u>491.3</u>	<u>410.1</u>	<u>348.2</u>	<u>155.2</u>
Total revenues	541.4	491.3	410.1	348.2	155.2
Section 31 fees ⁽⁶⁾	48.0				
	<u>493.4</u>	<u>491.3</u>	<u>410.1</u>	<u>348.2</u>	<u>155.2</u>
Revenues, less Section 31 fees					
	<u>493.4</u>	<u>491.3</u>	<u>410.1</u>	<u>348.2</u>	<u>155.2</u>
Cost of revenues ⁽⁵⁾ :					
Liquidity payments ⁽⁹⁾	206.9	203.5	154.2	45.8	
Routing charges	66.7	88.7	113.8	150.5	63.9
Clearance, brokerage and other transaction expenses ⁽¹⁰⁾	5.9	13.7	45.0	86.8	29.1
	<u>279.5</u>	<u>305.9</u>	<u>313.0</u>	<u>283.1</u>	<u>93.0</u>
Total cost of revenues	279.5	305.9	313.0	283.1	93.0
	<u>213.9</u>	<u>185.4</u>	<u>97.1</u>	<u>65.1</u>	<u>62.2</u>
Gross margin	213.9	185.4	97.1	65.1	62.2
Indirect expenses ⁽⁵⁾ :					
NYSE merger costs and related executive compensation ⁽¹¹⁾	46.1				
Other employee compensation and benefits	51.6	38.4	36.1	21.6	21.7
Depreciation and amortization	21.6	22.9	25.9	16.6	10.1
Communications	19.5	16.3	18.3	23.1	26.8
Marketing and promotion	22.2	20.1	8.1	19.0	24.5
Legal and professional	12.6	11.1	8.3	7.0	6.5
Occupancy	6.7	4.2	4.0	2.5	2.0
General and administrative	16.2	11.3	9.9	8.5	8.0
	<u>196.5</u>	<u>124.3</u>	<u>110.6</u>	<u>98.3</u>	<u>99.6</u>
Total indirect expenses	196.5	124.3	110.6	98.3	99.6

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Operating income (loss)	17.4	61.1	(13.5)	(33.2)	(37.4)
Interest and other, net	4.5	1.6	0.6	1.3	3.3
Unrealized loss on investment owned				(2.7)	(3.9)
	<u>21.9</u>	<u>62.7</u>	<u>(12.9)</u>	<u>(34.6)</u>	<u>(38.0)</u>
Income (loss) before income tax provision	21.9	62.7	(12.9)	(34.6)	(38.0)
Income tax provision ⁽¹²⁾	9.4	5.3			
	<u>12.5</u>	<u>57.4</u>	<u>(12.9)</u>	<u>(34.6)</u>	<u>(38.0)</u>
Income (loss) from continuing operations	12.5	57.4	(12.9)	(34.6)	(38.0)
Income (loss) from discontinued operations ⁽⁴⁾	3.8	11.5	14.7	(1.0)	
	<u>16.3</u>	<u>68.9</u>	<u>1.8</u>	<u>(35.6)</u>	<u>(38.0)</u>
Net income (loss)	16.3	68.9	1.8	(35.6)	(38.0)
Deemed dividend on convertible preferred shares ⁽¹³⁾		(9.6)			
	<u>\$ 16.3</u>	<u>\$ 59.3</u>	<u>\$ 1.8</u>	<u>\$ (35.6)</u>	<u>\$ (38.0)</u>
Net income (loss) attributable to common stockholders	\$ 16.3	\$ 59.3	\$ 1.8	\$ (35.6)	\$ (38.0)
	<u>\$ 0.27</u>	<u>\$ 1.42</u>	<u>\$ (0.36)</u>	<u>\$ (1.11)</u>	<u>\$ (2.35)</u>
Basic earnings (loss) per share from:					
Continuing operations	\$ 0.27	\$ 1.42	\$ (0.36)	\$ (1.11)	\$ (2.35)
Discontinued operations	0.08	0.29	0.41	(0.03)	
Deemed dividend on convertible preferred shares ⁽¹³⁾		(0.24)			
	<u>\$ 0.35</u>	<u>\$ 1.47</u>	<u>\$ 0.05</u>	<u>\$ (1.14)</u>	<u>\$ (2.35)</u>
Basic earnings (loss) per share ⁽¹⁴⁾	\$ 0.35	\$ 1.47	\$ 0.05	\$ (1.14)	\$ (2.35)
	<u>\$ 0.26</u>	<u>\$ 1.34</u>	<u>\$ (0.35)</u>	<u>\$ (1.11)</u>	<u>\$ (2.35)</u>
Diluted earnings (loss) per share from:					
Continuing operations	\$ 0.26	\$ 1.34	\$ (0.35)	\$ (1.11)	\$ (2.35)
Discontinued operations	0.08	0.27	0.40	(0.03)	
Deemed dividend on convertible preferred shares ⁽¹³⁾		(0.22)			
	<u>\$ 0.34</u>	<u>\$ 1.38</u>	<u>\$ 0.05</u>	<u>\$ (1.14)</u>	<u>\$ (2.35)</u>
Diluted earnings (loss) per share ⁽¹⁴⁾	\$ 0.34	\$ 1.38	\$ 0.05	\$ (1.14)	\$ (2.35)
	<u>46.8</u>	<u>40.3</u>	<u>36.2</u>	<u>31.2</u>	<u>16.2</u>
Basic weighted average shares outstanding ⁽¹⁴⁾	46.8	40.3	36.2	31.2	16.2
Diluted weighted average shares outstanding ⁽¹⁴⁾	47.8	42.9	37.0	31.2	16.2

As of December 31,

	2005(1)	2004(2)	2003	2002(3)	2001
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(in millions, except per share data)

Balance Sheet⁽⁴⁾

Cash and cash equivalents ⁽¹⁾⁽⁶⁾⁽¹⁵⁾⁽¹⁶⁾	\$ 134.4	\$ 145.2	\$ 94.4	\$ 28.2	\$ 54.8
Receivables from brokers, dealers and customers, net ⁽⁶⁾	56.6	31.4	31.7	21.6	20.8
Receivables from related parties, net ⁽⁵⁾	23.3	42.9	35.4	16.2	10.1
Total assets	579.8	543.9	471.3	379.6	234.4
Total stockholders' equity	422.1	460.9	303.3	302.8	195.8

(1) In September 2005, Archipelago completed the acquisition of PCX Holdings and its subsidiaries for a total purchase price of approximately \$94.0 million consisting of a \$90.9 million cash payment to PCX Holdings stockholders and certain employees of PCX Holdings and its subsidiaries, and approximately \$3.1 million of direct costs incurred by Archipelago as part of this acquisition. The results of operations of PCX Holdings have been included in Archipelago's results of operations since October 1, 2005.

(2) On August 11, 2004, prior to the consummation of its initial public offering, Archipelago Holdings L.L.C. converted from a Delaware limited liability company to a Delaware corporation, Archipelago Holdings, Inc.

(3)

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On March 15, 2002, Archipelago completed a merger with REDIBook ECN L.L.C., a competing ECN, as a result of which Archipelago significantly increased its trading volumes in Nasdaq-listed securities.

(4)

Pursuant to a September 2005 order from the SEC, Archipelago undertook to divest Wave Securities L.L.C., a wholly owned subsidiary of Archipelago providing agency brokerage services. The results of operations and financial position of Wave

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Securities are presented as discontinued operations in the consolidated financial statements. All historical periods presented have been restated to reflect such presentation. Archipelago completed the sale of Wave Securities on March 3, 2006.

- (5) Archipelago engages in a significant amount of business with related parties in the ordinary course of its business. For a discussion of Archipelago's related-party transactions, see Note 10 to Archipelago's consolidated financial statements included elsewhere in this prospectus.
- (6) Archipelago pays Section 31 fees to the SEC based on fee schedules determined by the SEC and, in turn, collects activity assessment fees from equity trading permit and option trading permit holders trading on ArcaEx and the Pacific Exchange, respectively. Activity assessment fees received are included in cash and cash equivalents at the time of receipt, and, as required by law, the amount due to the SEC is recorded as an accrued liability and remitted semiannually. Following the September 2005 acquisition of PCX Holdings, activity assessment fee revenue and Section 31 fee expense are presented gross in Archipelago's statement of operations. These fees have had no impact on Archipelago's consolidated statement of operations.
- (7) Following the launch of ArcaEx in March 2002, Archipelago began earning revenues from market data fees based on the level of trading activity on ArcaEx. As the operator of ArcaEx, Archipelago became eligible to participate in the sale of market data to, and the receipt of market data fees from, centralized aggregators of this information.
- (8) In January 2000, Archipelago implemented an equity entitlement program under which participating customers became eligible to earn "equity entitlements" based on the volume of order flow on Archipelago's trading platforms. Equity entitlements were converted into Class B shares of Archipelago Holdings L.L.C. without additional consideration. These shares were converted into shares of Archipelago common stock in the conversion of Archipelago Holdings L.L.C. into Archipelago Holdings, Inc.
- (9) In April 2002, to enhance the liquidity of its system, Archipelago began to pay a small fee per share, referred to as "liquidity payments," to participants that post certain buy orders and sell orders on the Archipelago system when the quote is executed against by other participants purchasing and selling internally on the Archipelago system. Archipelago generally does not pay these fees for orders posted on NYSE-listed securities.
- (10) Archipelago undertook self-clearing initiatives of its routing broker and introducing broker businesses. Effective in January 2005, Archipelago began to self-clear trades routed by ArcaEx to other market centers for execution. In addition, effective in July 2004, Archipelago began to self-clear trades effected by non-ETP broker-dealer customers accessing ArcaEx through Archipelago Trading Services. In addition, due to the lower percentage of orders routed out to other market centers, Archipelago's number of trades subject to clearing costs has decreased.
- (11) In connection with its merger with the NYSE, Archipelago incurred legal, banking, regulatory and other fees in 2005. In addition, Archipelago incurred certain executive compensation expenses as a result of the acceleration of payments to, and vesting of restricted stock units of, Archipelago officers in 2005.
- (12) As a limited liability company, all income taxes were paid by the members of Archipelago. As a corporation, Archipelago is responsible for the payment of all U.S. federal, state and local corporate income taxes.
- (13) In August 2004, in connection with its initial public offering, Archipelago converted 16,793,637 Class A preferred shares of Archipelago (sold to GAP Archa Holdings, L.L.C., an affiliate of General Atlantic, on November 12, 2003 for total consideration of \$50.0 million) into 4,449,268 shares of Archipelago common stock. Included in this conversion was the issuance of 717,349 shares of common stock attributable to a \$9.6 million beneficial conversion feature included in the previously issued redeemable preferred interest.
- (14) In August 2004, in connection with Archipelago's reorganization, the members of Archipelago Holdings L.L.C. received 0.222222 shares of Archipelago common stock for each membership held by the member in Archipelago Holdings L.L.C. The weighted average number of shares used in the basic and diluted earnings per share computations gives retroactive effect to this 4.5-for-1 reverse stock split.
- (15) As approved by the board of managers of Archipelago Holdings L.L.C. on July 16, 2004, Archipelago Holdings L.L.C. made a cash distribution to its members immediately prior to the conversion transaction. The cash distribution provided funds to the members to permit them to pay taxes that the members owe for their share of Archipelago's profits in 2004 as a limited liability company through the date of the conversion transaction, calculated primarily based on the highest federal and state income tax rate applicable for tax withholding purposes to an individual. The cash distribution was approximately \$24.6 million and resulted in a corresponding reduction to cash and cash equivalents. As used in this discussion, the term "members" refers to the former owners of Archipelago Holdings L.L.C.
- (16) In August 2004, Archipelago completed its initial public offering and sold 6,325,000 shares of Archipelago common stock at \$11.50 per share. Archipelago received net proceeds of \$67.6 million and incurred approximately \$6.8 million in expenses in connection with its initial public offering.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF NYSE GROUP AND THE NYSE

Overview

We are a holding company that, through our subsidiaries, operates two securities exchanges: the NYSE and NYSE Arca (formerly known as the Archipelago Exchange, or ArcaEx®, and the Pacific Exchange). We are a leading provider of securities listing, trading and market data products and services. We were formed in connection with the merger of the NYSE and Archipelago, which was completed on March 7, 2006. As of that date, the NYSE and Archipelago became wholly owned subsidiaries of NYSE Group.

NYSE/Archipelago Merger

On April 20, 2005, the NYSE entered into a definitive merger agreement with Archipelago, pursuant to which the NYSE and Archipelago agreed to combine their businesses and become wholly owned subsidiaries of NYSE Group, a newly-created, for-profit and publicly-traded holding company.

In the merger, each NYSE member was entitled to receive in exchange for its NYSE membership \$300,000 in cash and 80,177 shares of NYSE Group common stock. In addition, a cash dividend of \$70,571 was declared and paid to each holder of record of a NYSE membership as of March 6, 2006. In the merger, the NYSE members had the opportunity to make either a cash election to increase the cash portion (and decrease the stock portion) of their merger consideration, or a stock election to increase the stock portion (and decrease the cash portion) of their merger consideration. These elections were subject to proration. The aggregate number of shares of NYSE Group common stock issued to all of the NYSE members in the merger, together with the aggregate number of shares reserved for issuance to NYSE employees, equaled approximately 70% of the NYSE Group common stock issued and outstanding at the closing of the merger, on a diluted basis.

In the merger, (i) each share of the issued and outstanding shares of Archipelago common stock converted automatically into the right to receive one share of NYSE Group common stock; (ii) all outstanding stock options of Archipelago, whether vested or unvested, converted into options to purchase an equivalent number of shares of NYSE Group common stock; and (iii) all outstanding restricted stock units of Archipelago converted into an equal number of restricted stock units of NYSE Group common stock. The aggregate number of shares (including shares underlying stock options and restricted stock units) received by Archipelago stockholders equaled approximately 30% of the issued and outstanding shares of NYSE Group common stock at the closing of the merger, on a diluted basis.

As a result of the merger, we expect to achieve operational synergies resulting from the consolidation of capabilities and elimination of redundancies, and to achieve greater efficiencies from increased scale, market integration, more automation and a for-profit structure. We have identified cost saving opportunities in a number of areas, including hiring freezes and headcount reductions, the elimination of overlaps in technology, marketing, occupancy, and general and administrative costs, and increased efficiencies in our general business processes. For a discussion of the risks associated with realizing these operational synergies, see "Risk Factors We may fail to realize the anticipated cost savings, growth opportunities and synergies and other benefits anticipated from the combination of the NYSE and Archipelago."

Basis of Presentation

The merger has been treated as a purchase business combination for accounting purposes, with the NYSE designated as the acquirer. As a result, the historical results of the NYSE will become the historical results of NYSE Group. The following sections present management's discussion and analysis of financial condition and results of operations of the NYSE (as the predecessor to NYSE Group) and Archipelago (as

predecessor of NYSE Arca). Because the merger was not consummated on or before December 31, 2005, the historical financial statements reflect each of the NYSE and Archipelago separately.

Business Environment

The business environment in which the NYSE has operated has been characterized by challenging business conditions. Ongoing regulatory developments, increasing scrutiny of execution costs, unbundling of financial services and enhancements in trading and trade processing technology have created an unprecedented level of competition in the provision of trade execution and related services. In addition, changes in market-related legislation have affected the capital raising process in the United States and abroad.

This environment has affected the NYSE's business and the components of its results of operations, and is likely to affect the NYSE Group's results to varying degrees in the future. In particular, these business, economic, regulatory and competitive conditions affect:

overall trading volume on the NYSE of its listed securities;

the prices that the NYSE can charge its member organizations for trade execution and other trade-related services provided by the NYSE;

domestic and international companies' decisions to raise capital through an issuance of shares on the NYSE; and

whether companies that are listed on another market will transfer their listing to the NYSE or whether listed companies will remain listed on the NYSE.

The securities industry also has experienced a number of global, technological and regulatory developments. There has been substantial consolidation of industry participants, resulting in stronger competitors able to offer multiple products and services. In addition, following the development of new products and the convergence of different classes of securities, investors have increased their demands for these products, particularly for multi-class execution products.

The business environment in which the NYSE has operated has been characterized by the following trends:

increased global competition

greater emphasis on faster and more cost efficient trade execution;

demand for transparency and stronger corporate growth;

growth in trade volumes; and

regulatory developments, including Regulation NMS.

For more concerning these trends and developments, see "Industry Overview."

Segment Reporting

During the periods presented, the NYSE operated under two reportable segments, NYSE Market and SIAC Services. The segments were managed and operated as two business units and organized based on services provided to customers. Upon completion of the merger, NYSE Group may operate and manage its businesses in a different manner and under different reportable segments.

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Fees derived from obtaining new listings and from existing listings on the NYSE, trade execution on the NYSE and distribution of market information to data subscribers were allocated to NYSE Market. NYSE Market also included membership fees, regulatory fees and investment and other income.

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SIAC Services included fees from the provision of communication and data processing operations and systems development functions to the NYSE and third-party customers, which are included in data processing fees on the consolidated statements of income.

Expenses allocated to NYSE Market and SIAC Services were the direct expenses related to running those segments.

Operating Data

The NYSE's revenues were affected by many factors, including the number of companies listed on the NYSE (both new and continuing), corporate actions by these companies (for example, stock splits and mergers), trading activity, demand for data processing, member organization activity, and demand for market information. The following table presents selected operating data for the periods presented. A description of the manner in which the NYSE calculated its trading volumes and other operating measures is set forth below.

NYSE Business Drivers

	Year Ended December 31,		
	2005	2004	2003
Company Listings:			
NYSE listed issuers ⁽¹⁾	2,672	2,618	2,561
Number of new issuer listings ⁽²⁾	192	165	109
NYSE share (%) of domestic qualified new operating company listings proceeds (IPOs) ⁽³⁾	91.5%	90.0%	82.5%
NYSE share (%) of international qualified new operating company listings proceeds (IPOs) ⁽⁴⁾	95.8%	96.6%	100.0%
Trading Activity: NYSE-Listed Common and Warrants⁽⁵⁾			
Consolidated average daily volume (millions of shares) ⁽⁶⁾	2,001.2	1,774.6	1,691.9
% change	12.8%	4.9%	
NYSE listed average daily volume (millions of shares) ⁽⁶⁾	1,529.3	1,402.7	1,341.0
% change	9.0%	4.6%	(3.4)%
NYSE share of trading full day (%) ⁽⁷⁾	76.4%	79.0%	79.3%
NYSE share of trading trading hours (%) ⁽⁸⁾	78.6%	81.1%	81.5%
Trading Activity: Other:⁽⁹⁾			
NYSE UTP ETF average daily volume (millions of shares) ⁽¹⁰⁾	5.4	7.9	10.6
Average daily volume in crossing sessions, preferred stocks and other issues ⁽¹¹⁾	61.4	42.1	41.6
Market Information:			
Tape A share of trades (%) ⁽¹²⁾	87.5%	90.6%	89.8%
Professional subscribers	413,458	411,343	402,152
Regulatory Fees:			
Gross FOCUS revenues (\$ billions) ⁽¹³⁾	187.3	145.4	145.7
Data Processing:			
% SIAC revenue from non-NYSE customers	42.0%	45.1%	47.0%

(1) Number of listed operating companies, closed-end funds and ETFs as of period end.

(2) Includes initial public offerings and transfers of common stocks from other markets.

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- (3) Proceeds raised by NYSE-listed domestic IPOs/Total proceeds raised by qualified domestic IPOs. Qualified IPOs represent initial public offerings of issuers that meet the NYSE's initial listing criteria.
- (4) Proceeds raised by NYSE-listed international IPOs/Total proceeds raised by qualified international IPOs. We deem the initial capital-raising event in the United States involving a listing of a non-U.S. issuer to be an international IPO for purposes of this calculation. Qualified IPOs represent initial public offerings of issuers that meet the NYSE's initial listing criteria.
- (5) Trading activity includes only trades executed in NYSE-listed common stocks and warrants, as defined by the NYSE, and excludes any trading activity in NYSE's preferred stocks, rights, structured products (including NYSE-listed ETFs) and during the NYSE's four crossing sessions (which are periods during which trading takes place after the close of regular trading sessions).

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- (6) Consolidated average daily volume includes the trading volume executed across all exchanges as reported to the consolidated tape between 4:00 am to 8:00 pm EST. NYSE-listed average daily volume includes the trading volume executed on the NYSE during normal NYSE business hours (currently 9:30 am to 4:00 pm EST). The consolidated aggregate trading volume and the NYSE-listed aggregate trading volume are then divided by the appropriate number of trading days in the period.
- (7) Represents the NYSE average daily volume executed during normal NYSE business hours (currently 9:30 am to 4:00 pm EST) divided by the consolidated average daily volume executed full day (currently 4:00 am to 8:00 pm EST).
- (8) Represents the NYSE average daily volume executed during normal NYSE business hours (currently 9:30 am to 4:00 pm EST) divided by the consolidated average daily volume executed during normal NYSE business hours.
- (9) Other trading activity includes any trades executed on the NYSE that were not included in note (5) above, including (a) trades executed on the NYSE in non-listed ETFs under NYSE's unlisted trading privileges, (b) trades executed during the NYSE's four crossing sessions, and (c) trades executed on the NYSE in preferred stocks, rights, and structured products. Unlisted trading privileges, or UTP, refer to the right of exchanges and other markets centers under the Exchange Act to trade securities listed on any national securities exchange.
- (10) The NYSE began trading ETFs on a UTP basis on the NYSE began on July 31, 2001. The NYSE currently trades over 47 ETFs on a UTP basis, including the Standard & Poor's Depository Receipts® (SPY) and the Dow Industrials DIAMONDS® (DIA).
- (11) Represents trading volumes executed on the NYSE in preferred stocks, rights, structured products (including NYSE-listed ETFs) and trading volumes executed during the NYSE's four crossing sessions.
- (12) Represents the NYSE's share of qualifying trades in NYSE-listed securities reported by the NYSE to the consolidated tape, as compared to the total number of qualifying trades in NYSE-listed securities reported to the consolidated tape by all other participating market centers. The consolidated tape refers to a collection of market data that multiple markets make available on a consolidated basis. "Tape A" refers to trades in NYSE-listed securities reported to the consolidated tape.
- (13) Gross FOCUS revenues represent revenues generated by member broker-dealers as reported on their "FOCUS" report (as required by the SEC). A member broker-dealer regulatory fee is based on the revenues reported. The NYSE records revenue on a six-month lag; the data is provided on this basis.

Sources of Revenues

During the periods presented, the NYSE generated revenue from the sources discussed below. NYSE Group will continue to generate revenue from these sources except as otherwise provided below.

Activity Assessment Fees

The NYSE paid SEC fees pursuant to Section 31 of the Securities and Exchange Act of 1934. These fees are designed to recover the costs to the government of supervision and regulation of securities markets and securities professionals. NYSE, in turn, collected activity assessment fees from member organizations clearing or settling trades on the NYSE and recognizes these amounts when invoiced. Fees received are included in cash at the time of receipt and, as required by law, the amount due to the SEC is remitted semiannually and recorded as an accrued liability until paid. NYSE recorded activity assessment fee revenue and Section 31 fees expense on its consolidated statements of income as the NYSE bears the credit risk associated with the collection of these fees.

Listing Fees

Listing fees are paid by companies when they initially list on the NYSE and annually thereafter. Original fees consist of two components, original listing fees and other corporate action related fees. Original listing fees, subject to a minimum and maximum amount, are based on the number of shares that the company initially lists with the NYSE. Other corporate action related fees are paid by listed companies in connection with corporate actions involving the issuance of new shares to be listed on the NYSE, such as stock splits, rights issues, sales of additional securities, and mergers and acquisitions, again, subject to a minimum and maximum fee. Annual fees are charged based on the number of outstanding shares of the company at the end of the previous year. These fees are recognized on a pro-rata basis over the calendar year. Original fees are recognized on a straight-line basis over estimated service periods of 10 years. Unamortized balances are recorded as deferred revenue on the consolidated statements of financial condition.

Data Processing Fees

Data processing fees are charged by SIAC to customers other than the NYSE (fees charged to the NYSE are eliminated in consolidation) for communication services, data processing operations and systems development functions. SIAC operates on a cost recovery model driven by its customers' demands. Under this model, any increase or decrease in SIAC's operating expenses results in a corresponding change in its revenues. In addition, SIAC earns revenues through its subsidiary, Sector, Inc.

Market Information Fees

NYSE collected market information fees principally for consortium-based data products and, to a lesser extent, for NYSE proprietary data products. Consortium-based data fees are determined by securities industry plans. Consortium-based data revenues that coordinated market data distribution generates (net of joint processing and administration costs) are distributed to participating markets on the basis of their respective number of trades. Last sale prices and quotes in NYSE-listed securities are disseminated through "Network A," or "Tape A," and this constitutes the majority of the NYSE's revenues from consortium-based market data revenues. NYSE also received a share of the revenues from "Network B," or "Tape B," which represents data related to trading of AMEX-listed securities and certain securities that are listed on other national securities exchanges. These revenues are influenced by demand for the product by professional and non-professional subscribers, as well as the NYSE's share of trades. In addition, NYSE Group receives fees for television broadcasts, vendor access and other usage fees related to per quote or per trade data. NYSE proprietary products make available market data covering activity that takes place solely on the NYSE's market, independent of activity on other markets. NYSE's own products include NYSE OpenBook®, NYSE Broker Volume®, NYSE Alerts, and various NYSE databases. Revenues generated by proprietary products are not shared with other markets.

Trading Fees

Trading fees are paid by member organizations based on their trading activity on the NYSE. Fees are assessed on a per share basis for trading in equity securities. The fees are applicable to all transactions that take place at the NYSE, and the fee amounts vary, based on the size and type of trade that is consummated. There is no fee for small electronic trades. All members and member organizations pay trading fees except "\$2 brokers" (who, by definition, effect transactions only for other member organizations) and specialists (who only pay fees for trading ETFs). There are two caps that apply to the net trading fees, and member organizations pay the lesser of these two fee caps on a monthly basis. The first cap is a fixed dollar amount maximum of \$600,000 per month. The second is a variable cap that is equal to 2% of the net commissions that a member organization earns on the trades it executes on the trading floor. NYSE Group's pricing structures are currently undergoing a fundamental examination as part of a broad strategic review of the NYSE Group's opportunities for revenue growth and efficiency improvement and to better capture value for the services rendered by aligning more closely transaction revenue with executed volume, product expansion and new product development. NYSE Group is currently exploring opportunities to develop new transaction pricing structures. NYSE Group intends to introduce a new NYSE transaction fee structure in 2006, although it is not possible at this time to predict the timing, scope, or potential impact of any such transaction fee changes, because these transaction fee changes are still being reviewed internally, and any proposed amendments have not yet been filed with the SEC for approval. Transaction fees that NYSE Group earns in the future could also depend on the outcome of certain regulations and rule changes, such as Regulation NMS. See "Regulation Recent Regulatory Developments Regulation NMS". NYSE Group cannot predict or quantify the impact these rule changes will have on its business, including the impact of transaction fees.

Regulatory Fees

Regulatory fees are principally comprised of member regulation fees and market surveillance fees collected by NYSE. (Regulatory fines are recorded in Other Income.) Member regulation fees are based on member organizations' Gross FOCUS Revenues (as required by the SEC) that is, revenues generated by member broker-dealers and reported on a six-month lag basis as well as on the number of branch offices of member broker-dealers, and the number of registered representatives. Market surveillance fees are charged to specialists and floor brokers to recover some of the costs of overseeing trading on the NYSE floor. Other regulatory fees include revenue from applications, registration of branch offices and specialists, as well as fees for certain licensing examinations necessary to operate in the securities industry.

Facility and Equipment Fees

Facility and equipment fees comprise fees received for services provided to specialists, brokers and clerks physically located on the NYSE floor that enable them to engage in the purchase and sale of securities on the trading floor. These services include booth and post space, communication, trading analysis and technology.

Historically, the NYSE charged each specialist firm for both the number of post spaces occupied on the trading floor, and for each registered specialist. However, as of January 1, 2006, the NYSE introduced a new pricing structure to replace several fees that had been previously charged by the NYSE to specialists. Under this new structure, referred to as the "Specialist Trading Privilege Fee," specialists are charged an annual fee per symbol traded on the NYSE, and this fee is determined based on the consolidated average daily dollar volume of each particular symbol traded by the specialists. The NYSE has charged floor brokers for each booth occupied on the trading floor, and rates vary depending on the location of the particular booth. Specialists and floor brokers also pay an annual fee for each of their clerks working on the trading floor. Fees are also charged to trading floor participants for a variety of services provided by the NYSE, including eBroker handheld devices, phone service, radio paging and connections to third-party market data providers.

Membership Fees

Historically, the NYSE generated annual membership revenues from its regular members and electronic access members. Prior to the merger with Archipelago, the NYSE's 1,366 regular members paid annual dues. In addition, each electronic access member of the NYSE paid an annual fee to the NYSE that provided such member with electronic access to the trading floor for a 12-month period. The annual electronic access member fee was equal to 90% of the 6-month average of the annual rentals payable under the bona fide leases of memberships entered into during each of the six calendar months prior to the most recently completed quarter. In addition to the annual membership fees, the NYSE generated revenues by charging a fee in conjunction with the purchase or lease of a NYSE membership.

After the completion of the merger between the NYSE and Archipelago, the right to trade on the NYSE ceased to be tied to membership, and as a result these fees no longer exist. Instead, fees will be collected through the sale of annual trading licenses. On January 4, 2006, the NYSE completed a modified Dutch auction, as a result of which 1,274 trading licenses were sold at an annualized price of \$49,290 per license.

Investment and Other Income

Investment and other income consists of investment income from the NYSE's portfolio, regulatory fines, insurance reimbursements and any other income not classified in one of the above categories. Insurance reimbursements are typically from legal expenses incurred, as well as reimbursements related to September 11, 2001 events. Regulatory fines are used for regulatory purposes. Regulatory fines are used for regulatory purposes.

Section 31 Fees

See " Activity Assessment Fees" above.

Components of Expense

Set forth below are the components of expense for the NYSE for the periods presented. NYSE Group expects to incur these categories of expenses in the future.

Compensation

The NYSE's compensation expense included employee salaries, incentive compensation and related benefits expense, including pension, medical, postretirement medical, and supplemental executive retirement plan ("SERP") charges. Part-time help, primarily related to security personnel at the NYSE, is also recorded in this category.

Systems and Related Support

The NYSE's systems expense included costs for development and maintenance of trading, regulatory and administrative systems as well as investments in system capacity, reliability and security, all of which the NYSE considers critical to its business.

Professional Services

The NYSE's professional services expense included consulting charges related to various technological and operational initiatives, as well as legal and audit fees.

Depreciation and Amortization

This item included costs from depreciating fixed assets over their estimated useful lives. It also includes depreciation of computer hardware and capitalized software.

Occupancy

This item included costs related to the NYSE's leased premises, as well as real estate taxes and maintenance of owned premises.

General and Administrative

General and administrative expenses included insurance premiums, advertising, printing and promotion expenses, travel and entertainment expenses as well as other administrative types of expenses.

Results of Operations*Year Ended December 31, 2005 Versus Year Ended December 31, 2004**Overview*

The following table sets forth the NYSE's consolidated statements of income for the years ended December 31, 2005 and December 31, 2004, as well as the percentage increase or decrease for each consolidated statement of income item for the year ended December 31, 2005, as compared to such item for the year ended December 31, 2004.

	Year Ended December 31,		Percent Increase (Decrease)
	2005	2004	
	(amounts in millions)		
Revenues:			
Activity assessment fees	\$ 594.6	\$ 359.8	65.3%
Listing fees	342.7	329.8	3.9%
Data processing fees	182.9	220.7	(17.1)%
Market information fees	178.2	167.6	6.3%
Trading fees	145.8	153.6	(5.0)%
Regulatory fees	129.8	113.3	14.5%
Facility and equipment fees	49.4	50.4	(1.9)%
Membership fees	6.4	8.3	(23.8)%
Investment and other income	87.9	45.8	92.1%
Total revenues	1,717.7	1,449.3	18.5%
Section 31 fees	594.6	359.8	65.3%
Revenues, less Section 31 fees	\$ 1,123.1	\$ 1,089.5	3.1%
Expenses:			
Compensation	\$ 509.8	\$ 522.6	(2.5)%
Systems and related support	124.1	138.6	(10.4)%
Professional services	127.7	132.7	(3.8)%
Depreciation and amortization	103.4	95.7	8.1%
Occupancy	70.6	68.6	3.0%
General and administrative	69.7	84.3	(17.3)%
Archipelago merger and related exit costs	26.1		
Total expenses	\$ 1,031.4	\$ 1,042.5	(1.1)%
Income before provision for income taxes and minority interest	\$ 91.7	\$ 47.0	95.0%
Provision for income taxes	48.9	15.8	208.9%
Minority interest in income of consolidated subsidiary	2.0	1.0	98.8%
Net income	\$ 40.8	\$ 30.2	35.1%

The NYSE's operations for the year ended December 31, 2005 resulted in net income of \$40.8 million compared to net income of \$30.2 million for the year ended December 31, 2004. The NYSE's improved operating results were driven by a \$33.6 million, or 3.1% increase in revenues, less Section 31 fees, and an \$11.1 million decrease in expenses as compared to the year ended December 31, 2004.

For the year ended December 31, 2005, total revenues were \$1,717.7 million. Revenues, less Section 31 fees, were \$1,123.1 million compared with \$1,089.5 million for the year ended December 31, 2004. The increase of \$33.6 million was driven primarily by growth in many of our key businesses.

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For the year ended December 31, 2005, total expenses were \$1,031.4 million, compared with \$1,042.5 million for the year ended December 31, 2004. Expenses, excluding Archipelago merger and related exit costs, declined \$37.2 million, or 3.6%, primarily due to ongoing cost reduction initiatives.

Revenues NYSE Market

Overview. The following table sets forth the revenues attributable to NYSE Market for the year ended December 31, 2005 and 2004, as well as the percentage increase or decrease for each consolidated statements of income item for the year ended December 31, 2005, as compared to such item for the year ended December 31, 2004.

	Year Ended December 31,		Percent Increase (Decrease)
	2005	2004	
	(amounts in millions)		
Revenues:			
Activity assessment fees	\$ 594.6	\$ 359.8	65.3%
Listing fees	342.7	329.8	3.9%
Market information fees	178.2	167.6	6.3%
Trading fees	145.8	153.6	(5.0)%
Regulatory fees	129.8	113.3	14.5%
Facility and equipment fees	49.4	50.4	(1.9)%
Membership fees	6.4	8.3	(23.8)%
Investment and other income	76.2	40.5	88.2%
Total revenues	1,523.1	1,223.3	24.5%
Section 31 fees	594.6	359.8	65.3%
Revenues, less Section 31 fees	\$ 928.5	\$ 863.5	7.5%

Listing Fees. The following table sets forth the revenues from listing fees calculated in accordance with U.S. generally accepted accounting principles ("as reported") and as would be reported on a basis without giving effect to U.S. generally accepted accounting principles ("billed basis"). The NYSE believes that the presentation of billed basis revenues, as they relate to original fees, is a good indicator of current listing fee activity as billed basis information excludes the effects of recognizing revenues related to original fees over 10 years.

	Year Ended December 31,				Percent Increase (Decrease)	
	2005		2004		As Reported	Billed Basis
	As Reported	Billed Basis	As Reported	Billed Basis		
	(amounts in millions)					
Annual fees	\$ 252.2	\$ 252.2	\$ 241.3	\$ 241.3	4.5%	4.5%
Original fees	90.5	83.9	88.5	79.6	2.3%	5.4%
	\$ 342.7	\$ 336.1	\$ 329.8	\$ 320.9	3.9%	4.8%

For the year ended December 31, 2005 compared to the year ended December 31, 2004, listing fees increased \$12.9 million, or 3.9%, on an as reported basis.

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Listing fees are primarily derived from annual listing fees and original fees. Original listing fees are deferred and amortized over the estimated service period of 10 years. The difference between the as reported revenues and the billed basis revenues is due to the amortization of listing fees in accordance with U.S. generally accepted accounting principles.

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Annual listing fees totaled \$252.2 million on both an as reported and billed basis for the year ended December 31, 2005 compared with \$241.3 million on both an as reported and billed basis for the year ended December 31, 2004, an increase of 4.5%. This is due to the increase in aggregate shares billed at the beginning of the year, from 355 billion to 387 billion, as well as new listings of shares during the year, which generate annual fees for the period of the year listed. Annual listing fees are recognized on a pro-rata basis over the calendar year.

For the year ended December 31, 2005, original fees totaled \$90.5 million on an as reported basis. On a billed basis, original fees totaled \$83.9 million in 2005 compared with \$79.6 million in 2004, a 5.4% increase. Original listings of operating companies, closed-end funds and ETFs increased year over year from 165 to 192 which drove the increase in original fees billed.

Market Information Fees. For the year ended December 31, 2005, compared to the year ended December 31, 2004, market information fees increased \$10.6 million, or 6.3%. The number of non-professional users increased by 13.4% year over year. The demand for NYSE Open Book®, one of the NYSE's proprietary data products, continued to increase, as the number of subscribers was 17.5% higher than the same period in the prior year causing NYSE Open Book® revenue to increase by 24.7%. Non-recurring revenues from previously uncollected charges of \$5.8 million during the year ended December 31, 2005 also added to the increase. Somewhat offsetting the increase in market information fees was NYSE's share of Tape A trades decreasing period over period, from 90.6% to 87.5%.

Trading Fees. For the year ended December 31, 2005, compared to the year ended December 31, 2004, trading fees fell \$7.8 million, or 5.0%. Although NYSE listed average daily volume was up 9.0%, current pricing structures relating to dollar caps inhibited the NYSE's ability to generate revenue growth. Partially offsetting this decline in revenue was an increase in revenue derived from ETF transactions. These revenues increased 136.3% as compared to 2004 as the trading activity increased from 236 million shares during 2004 to 926 million shares for 2005.

Regulatory Fees. For the year ended December 31, 2005, compared to the year ended December 31, 2004, regulatory fees increased \$16.5 million, or 14.5%. Member regulation fees drove the increase for the year due to higher reported gross FOCUS revenues (\$187.3 billion in 2005 as compared to \$145.4 billion in 2004).

Facility and Equipment Fees. For the year ended December 31, 2005, facility and equipment fees were relatively flat as compared to December 31, 2004. Both the type and level of services provided to the floor were generally unchanged.

Membership Fees. For the year ended December 31, 2005, compared to the year ended December 31, 2004, annual membership fees from NYSE Market fell \$1.9 million, or 23.8%. The decrease was due to fewer electronic access member renewals period over period and electronic access member prices.

Investment and Other Income. For the year ended December 31, 2005, compared to the year ended December 31, 2004, investment and other income increased \$35.7 million to \$76.2 million. Increases were driven primarily by regulatory fines of \$35.4 million, including fines totaling \$29.0 million to two member organizations, compared to \$7.6 million in fines for the year ended December 31, 2004. Other components of the increase included higher investment income of \$16.6 million due to the effect of the portfolio reallocation initiated in December 2004 to higher yielding and more tax-efficient securities, a more favorable interest rate environment for our investments over the same period in the prior year, and realized gains of certain investments. The overall increase was partially offset by a reduction of \$6.2 million in insurance settlements received during 2005 as compared to 2004.

Revenues SIAC Services

Overview. The following table sets forth the revenues attributable to SIAC Services for the years ended December 31, 2005 and December 31, 2004, as well as the percentage increase or decrease for each consolidated statement of income item for the year ended December 31, 2005, as compared to such item for the year ended December 31, 2004.

	Year Ended December 31,		Percent Increase (Decrease)
	2005	2004	
(amounts in millions)			
Revenues:			
Data processing fees non-NYSE	\$ 182.9	\$ 220.7	(17.1)%
Data processing fees NYSE	252.8	266.1	(5.0)%
Investment and other income	11.6	5.2	122.1%
Total revenues	\$ 447.3	\$ 492.0	(9.1)%

Data Processing Fees Non-NYSE. For the year ended December 31, 2005, compared to the year ended December 31, 2004, data processing fees decreased \$37.8 million, or 17.1%, to \$182.9 million, due to decreases in services provided to SIAC's major non-NYSE customers and lower revenues from the communication services of Sector, Inc., SIAC's subsidiary.

Data Processing Fees NYSE. For the year ended December 31, 2005, compared to the year ended December 31, 2004, data processing fees decreased \$13.3 million, or 5.0%, to \$252.8 million. These fees decreased due to structural cost effectiveness efforts and continued transfer of certain lease obligations for data processing equipment from SIAC to the NYSE.

Investment and Other Income. For the twelve months ended December 31, 2005, compared to the twelve months ended December 31, 2004, investment and other income increased \$6.4 million or 122.1%, to \$11.6 million, primarily due to a \$5.5 million insurance settlement for Sector's business claims from the events of September 11, 2001.

Expenses NYSE Market

Overview. The following table sets forth the expenses attributable to NYSE Market for the years ended December 31, 2005 and 2004, as well as the percentage increase or decrease for each statement of

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income item for the year ended December 31, 2005, as compared to such item for the year ended December 31, 2004.

	Year Ended December 31,		Percent Increase (Decrease)
	2005	2004	
(amounts in millions)			
Expenses:			
Compensation	\$ 293.7	\$ 279.4	5.1%
Systems	41.4	37.8	9.6%
SIAC Support ⁽¹⁾	240.2	255.8	(6.1)%
Professional services	81.8	80.4	1.7%
Depreciation and amortization	65.8	60.1	9.5%
Occupancy	40.0	38.3	4.4%
General and administrative	57.1	69.6	(18.0)%
Archipelago merger and related exit costs	26.1		
	\$ 846.1	\$ 821.4	(3.0)%

(1) NYSE Market's SIAC Support expense does not equal SIAC Services' revenues from Data Processing Fees NYSE as certain fees billed to the NYSE by SIAC relate to software developed for the NYSE's internal use, and as such have been capitalized.

NYSE Market Compensation

	Year Ended December 31,		Percent Increase (Decrease)
	2005	2004	
(amounts in millions)			
Salaries and bonus	\$ 202.6	\$ 179.0	13.2%
Benefits and other	91.1	100.4	(9.3)%
	\$ 293.7	\$ 279.4	5.1%

Compensation. For the year ended December 31, 2005, compared to the year ended December 31, 2004, compensation increased by \$14.3 million, or 5.1%. Average headcount increased to 1,596 employees during 2005 from 1,551 in 2004 due principally to staff increases in NYSE Regulation. In addition, average salaries increased 4.9% and additional incentive awards were provided to NYSE Market employees during this period. Offsetting this increase was the impact of certain changes made to the NYSE Market employee benefit plans announced during 2005.

Systems and SIAC Support. For the year ended December 31, 2005, compared to year ended December 31, 2004, system costs increased \$3.6 million, or 9.6%, as a result of additional operating leases during 2005. SIAC support decreased by 6.1% to \$240.2 million due to efforts to achieve structural cost effectiveness, which reduced SIAC data processing operations and systems development costs, continued transfer of certain lease obligations for data processing equipment from SIAC to the NYSE, and reduced headcount.

Professional Services. For the year ended December 31, 2005, compared to the year ended December 31, 2004, professional services increased \$1.4 million or 1.7%. Legal fees represented \$24.0 million or 29.3% of total professional services, down from \$28.2 million or 35.1% of total professional services for the year ended December 31, 2004. Offsetting this decline were increases in

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consulting fees period over period due to various initiatives undertaken across the organization, including improving corporate and regulatory systems.

Depreciation and Amortization. For the year ended December 31, 2005, compared to the year ended December 31, 2004, depreciation and amortization increased \$5.7 million, or 9.5% reflecting the full year impact of accelerated useful lives implemented during 2004. Capital expenditures for 2005 were consistent as compared to 2004 with continued investments in technology and infrastructure.

Occupancy. For the year ended December 31, 2005, compared to the year ended December 31, 2004, occupancy increased \$1.7 million or 4.4% due to increased operating expenses.

General and Administrative. For the year ended December 31, 2005, compared to the year ended December 31, 2004, general and administrative expenses decreased \$12.5 million, or 18.0%. Cost savings initiatives at the NYSE in 2005 led the reductions, consisting of decreased advertising, travel and entertainment expenses and decreased contributions to various organizations.

Archipelago Merger and Related Exit Costs. For the year ended December 31, 2005, the NYSE incurred \$26.1 million in expenses related to the merger with Archipelago for which there was no comparison in 2004. These costs included \$18.5 million in legal costs, \$3.9 million in severance payments and \$3.7 million in integration costs.

Expenses SIAC Services

Overview. The following table sets forth the expenses attributable to SIAC Services for the years ended December 31, 2005 and December 31, 2004, as well as the percentage increase or decrease for each consolidated statement of income item for the year ended December 31, 2005, as compared to such item for the year ended December 31, 2004.

	Year Ended December 31,		Percent Increase (Decrease)
	2005	2004	
	(amounts in millions)		
Expenses:			
Compensation	\$ 224.2	\$ 248.5	(9.8)%
Systems	82.7	100.8	(18.0)%
Professional services	50.2	57.3	(12.4)%
Depreciation and amortization	37.7	35.6	5.9%
Occupancy	30.6	30.3	1.0%
General and administrative	12.6	14.7	(14.3)%
	\$ 438.0	\$ 487.2	(10.1)%

SIAC Services Compensation

	Year Ended December 31,		Percent Increase (Decrease)
	2005	2004	
	(amounts in millions)		
Salaries and bonus	\$ 164.3	\$ 180.7	(9.1)%
Benefits and other	59.9	67.8	(11.7)%
	\$ 224.2	\$ 248.5	(9.8)%

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Compensation. For the year ended December 31, 2005, compared to the year ended December 31, 2004, compensation decreased \$24.3 million, or 9.8%, to \$224.2 million due to a decrease in average headcount from 1,599 employees to 1,367. In 2004, additional expenses were incurred due to staff reductions, which were partially offset by changes made to certain benefit plans.

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Systems. For the year ended December 31, 2005, compared to the year ended December 31, 2004, systems costs decreased \$18.1 million, or 18.0%, to \$82.7 million, primarily due to cost containment initiatives and the transfer of certain computer equipment leases to NYSE Market.

Professional Services. For the year ended December 31, 2005, compared to the year ended December 31, 2004, professional services decreased \$7.1 million, or 12.4%, to \$50.2 million. Lower average contract staff, from 262 to 213, and decreased temporary support for trading operations, contributed to the reduction.

Depreciation and Amortization. For the year ended December 31, 2005, compared to the year ended December 31, 2004, depreciation and amortization expense rose \$2.1 million, or 5.9% year over year, to \$37.7 million. This increase was due to the full year impact of accelerated useful lives, which began in December 2004 following the review of certain depreciation policies, and the continued capital expenditures in technology and infrastructure.

Occupancy. For the year ended December 31, 2005, compared to the year ended December 31, 2004, occupancy costs were relatively flat year over year, reflecting an increase of \$0.3 million, or 1.0%, to \$30.6 million.

General and Administrative. For the year ended December 31, 2005, compared to the year ended December 31, 2004, general and administrative expenses decreased by \$2.1 million, or 14.3%, to \$12.6 million. This decrease was primarily due to a loss on disposal of assets during 2004 associated with the decommissioning of services provided to SIAC's major customers, which did not occur in 2005.

Income Taxes

The consolidated effective tax rate for the years ended December 31, 2005 and December 31, 2004 was 53.4% and 33.7%, respectively. The year-over-year increase was a result of non-deductible merger-related legal costs and factors impacting the tax provision relating to deferred tax items and other tax credits.

The following table sets forth the provision for income taxes, and the overall effective tax rate for the NYSE, on a consolidated basis, as well as for its two reportable segments NYSE Market and SIAC Services for the years ended December 31, 2005 and December 31, 2004.

	Year Ended December 31,			
	2005		2004	
	Provision for Income Taxes	Overall Effective Tax Rate	Provision for Income Taxes	Overall Effective Tax Rate
	(amounts in millions)		(amounts in millions)	
NYSE on a consolidated basis	\$ 48.9	53.4%	\$ 15.8	33.7%
NYSE Market	45.5	55.2%	14.0	33.2%
SIAC Services	3.4	36.3%	1.8	37.5%

Year Ended December 31, 2004 Versus Year Ended December 31, 2003

The following table sets forth the NYSE's consolidated statements of income for the years ended December 31, 2004 and December 31, 2003, as well as the percentage increase or decrease for each

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consolidated statement of income item for the year ended December 31, 2004, as compared to such item for the year ended December 31, 2003.

	Year Ended December 31,		Percent Increase (Decrease)
	2004	2003	
	(amounts in millions)		
Revenues			
Activity assessment fees	\$ 359.8	\$ 419.7	(14.3)%
Listing fees	329.8	320.7	2.8%
Data processing fees	220.7	224.8	(1.8)%
Market information fees	167.6	172.4	(2.8)%
Trading fees	153.6	157.2	(2.3)%
Regulatory fees	113.3	113.2	0.1%
Facility and equipment fees	50.4	60.6	(16.8)%
Membership fees	8.3	11.0	(24.5)%
Investment and other income	45.8	43.6	5.0%
Total revenues	1,449.3	1,523.2	(4.9)%
Section 31 fees	359.8	419.7	(14.3)%
Revenues, less Section 31 fees	1,089.5	1,103.5	(1.3)%
Expenses			
Compensation	522.6	520.5	(0.4)%
Systems and related support	138.6	146.0	(5.0)%
Professional services	132.7	97.5	36.1%
Depreciation and amortization	95.7	89.0	7.5%
Occupancy	68.6	67.0	2.4%
General and administrative	84.3	76.5	10.2%
Total expenses	1,042.5	996.5	4.6%
Income before provision for income taxes and minority interest	47.0	107.0	(56.1)%
Provision for income taxes	15.8	45.2	(65.0)%
Minority interest in income of consolidated subsidiary	1.0	1.3	(23.1)%
Net income	\$ 30.2	\$ 60.5	(50.1)%

The NYSE's operations for the year ended December 31, 2004 resulted in net income of \$30.2 million, compared to net income of \$60.5 million for the year ended December 31, 2003. The decrease in the NYSE's net income was driven primarily by a \$14.0 million, or 1.3%, decrease in revenues, less Section 31 fees, and \$46.0 million, or 4.6%, increase in expenses for the year ended December 31, 2004, compared to the year ended December 31, 2003.

For the year ended December 31, 2004, total revenues were \$1,449.3 million. Revenues, less Section 31 fees, for 2004, were \$1,089.5 million compared to \$1,103.5 million for the year ended December 31, 2003. An increase in listing fees of \$9.1 million, or 2.8%, partially offset large percentage declines in facility and equipment and membership fees and more modest percentage declines in data processing, market information and trading fees.

For the year ended December 31, 2004, total expenses were \$1,042.5 million, compared to \$996.5 million for the year ended December 31, 2003. Expenses increased by \$46.0 million, or 4.6%, primarily as a result of a \$35.2 million, or 36.1%, increase in professional services expense due primarily to

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higher legal and consulting expense, as well as higher general and administrative expense due to additional advertising in 2004 and greater depreciation expense due to shortened estimates of certain asset lives.

Revenues NYSE Market

Overview. The following table sets forth the revenues attributable to NYSE Market for the years ended December 31, 2004 and December 31, 2003, as well as the percentage increase or decrease for each consolidated statement of income item for the year ended December 31, 2004, as compared to such item for the year ended December 31, 2003.

NYSE Market

	Year Ended December 31,		Percent Increase (Decrease)
	2004	2003	
	(amounts in millions)		
Revenues:			
Activity assessment fees	\$ 359.8	\$ 419.7	(14.3)%
Listing fees	329.8	320.7	2.8%
Market information fees	167.6	172.4	(2.8)%
Trading fees	153.6	157.2	(2.3)%
Regulatory fees	113.3	113.2	0.1%
Facility and equipment fees	50.4	60.6	(16.8)%
Membership fees	8.3	11.0	(24.5)%
Investment and other income	40.5	33.3	21.6%
Total revenues	1,223.3	1,288.1	(5.0)%
Section 31 fees	359.8	419.7	(14.3)%
Revenues, less Section 31 fees	\$ 863.5	\$ 868.4	(0.6)%

Listing Fees. The following table sets forth the revenues from listing fees as reported and on a billed basis:

	Year Ended December 31,				Percent Increase (Decrease)	
	2004		2003		As Reported	Billed Basis
	As Reported	Billed Basis	As Reported	Billed Basis		
	(amounts in millions)					
Annual fees	\$ 241.3	\$ 241.3	\$ 232.2	\$ 232.2	3.9%	3.9%
Original fees	88.5	79.6	88.5	62.4	27.6%	27.6%
	\$ 329.8	\$ 320.9	\$ 320.7	\$ 294.6	2.8%	8.9%

For the year ended December 31, 2004, compared to the year ended December 31, 2003, listing fees increased \$9.1 million, or 2.8%, on an as reported basis.

Listing fees are primarily derived from annual listing fees and original fees. Original fees are deferred and amortized over the estimated service period of 10 years. The difference between the as reported revenues and the billed basis revenues were due to the amortization of listing fees in accordance with U.S. generally accepted accounting principles.

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Annual listing fees totaled \$241.3 million for the year ended December 31, 2004 on both an as reported and billed basis, an increase of 3.9% over the year ended December 31, 2003. This increase was

primarily due to additional listings during the year, for which annual fees were billed for the remaining portion of the year. Annual listing fees are recognized on a pro-rata basis over the calendar year.

Original fees totaled \$88.5 million on an as reported basis. On a billed basis, original fees totaled \$79.6 million for the year ended December 31, 2004, compared with \$62.4 million for the year ended December 31, 2003, a 27.6% increase. Increases in original listings from 109 to 165 period over period, including higher merger and acquisition activity and increased stock splits, which drove higher revenues.

Market Information Fees. For the year ended December 31, 2004, compared to the year ended December 31, 2003, market information fees declined \$4.8 million, or 2.8%. Market information fees for Tape A products declined due to a lower average number of monthly professional subscribers, resulting in a decrease of \$6.2 million in professional device revenue. The remaining decline was attributed to Tape B, due to a decrease in the NYSE's share of the trades. The non-professional/usage segment was flat and there was a decrease in the access fees. These decreases were offset by a 35% increase in NYSE Proprietary Products revenue and an increase in NYSE's share of Tape A trades. NYSE OpenBook® subscriptions increased 20% year-on-year.

Trading Fees. For the year ended December 31, 2004, compared to the year ended December 31, 2003, trading fees fell \$3.6 million, or 2.3%. Although average daily volume was up 4.6% in 2004, current pricing structures, including dollar caps and the 2% commission cap, inhibited the NYSE's ability to generate revenue growth despite higher trading activity.

Regulatory Fees. For the year ended December 31, 2004, regulatory fees were \$113.3 million, with no significant change over that in the year ended December 31, 2003. Member regulation fees are driven by gross FOCUS revenue, which was flat year over year at \$145 billion.

Facility and Equipment Fees. For the year ended December 31, 2004, compared to the year ended December 31, 2003, facility and equipment fees decreased \$10.2 million, or 16.8%, to \$50.4 million. The decrease resulted from the NYSE's decision to suspend the floor technology fee in July 2003, due to the prevailing poor economic environment for floor participants. This fee, instituted in 2003, was intended to recover the cost of providing services from those receiving value for the services.

Membership Fees. For the year ended December 31, 2004, compared to the year ended December 31, 2003, annual membership fees fell \$2.7 million, or 24.5%, to \$8.3 million. The drop was due to fewer electronic access membership renewals (29 in 2004 compared to 33 in 2003) and lower electronic access membership prices, reflecting lower lease prices on the floor. Transfer and other charges remained flat through the year.

Investment and Other Income. For the year ended December 31, 2004, compared to the year ended December 31, 2003, investment and other income increased \$7.2 million, or 21.6%. Declines in investment income and regulatory fines were offset by reimbursements and recoveries from various sources through the year. Investment income fell 27% due to lower yields and greater volatility in the fixed income markets. Management undertook a complete review of the investment portfolio in 2004, including an analysis of risk, product diversification, all-in cost of management, and tax efficiency. Based on this review, the portfolio was reallocated in December of 2004 to higher yielding and more tax-efficient securities. Regulatory fines collected decreased from \$11.2 million to \$7.6 million during the year. Offsetting these declines were various settlement payments totaling \$14.9 million that the NYSE received through the year. These included tax reimbursement, legal reimbursements, and recoveries from the events of September 11, 2001.

Revenues SIAC Services

Overview. The following table sets forth the revenues attributable to SIAC Services for the years ended December 31, 2004 and December 31, 2003, as well as the percentage increase or decrease for each consolidated statement of income item for the year ended December 31, 2004, as compared to such item for the year ended December 31, 2003.

SIAC Services

	Year Ended December 31,		Percent Increase (Decrease)
	2004	2003	
	(amounts in millions)		
Revenues:			
Data processing fees non-NYSE	\$ 220.7	\$ 224.8	(1.8)%
Data processing fees NYSE	266.1	253.0	5.2%
Investment and other income	5.2	10.3	(49.5)%
Total revenues	\$ 492.0	\$ 488.1	0.8%

Data Processing Fees Non-NYSE. For the year ended December 31, 2004, data processing fees were \$220.7 million, \$4.1 million, or 1.8%, lower than that in the year ended December 31, 2003. Lower revenues were driven by a decrease in data processing fees of major customers and lower revenues from Sector's communications services. These decreases were offset partially by increased decommissioning charges for a major customer, which is supplying itself services previously provided by SIAC, and communications revenues from the SFTI communications network.

Data Processing Fees NYSE. For the year ended December 31, 2004, compared to that in the year ended December 31, 2003, data processing fees increased \$13.1 million, or 5.2%, to \$266.1 million, primarily due to increased requests for service from the NYSE related to additional initiatives for trading systems, billings to NYSE for its share of costs related to SIAC's workforce reduction, physical security enhancements and depreciation relating to a change in the estimated useful life of assets, resulting in generally shorter depreciation schedules and higher depreciation expenses.

Investment and Other Income. For the year ended December 31, 2004, compared to that in the year ended December 31, 2003, investment and other income decreased \$5.1 million, or 49.5%, to \$5.2 million, primarily as a result of net realized gains associated with SIAC's investment portfolio. During 2003, management undertook a complete review of the investment portfolio, asset allocations and fund manager performance. Based upon this review, the portfolio was rebalanced and reallocated. Sales of securities and improved stock market performance resulted in an increase in net realized gains during 2003.

Expenses NYSE Market

Overview. The following table sets forth the expenses attributable to NYSE Market for the year ended December 31, 2004 and December 31, 2003, as well as the percentage increase or decrease for each

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consolidated statement of income item for the year ended December 31, 2004, as compared to such item for the year ended December 31, 2003.

	Year Ended December 31,		Percent Increase (Decrease)
	2004	2003	
(amounts in millions)			
Expenses:			
Compensation	\$ 279.4	\$ 280.1	(0.3)%
Systems	37.8	34.4	9.9%
SIAC support ⁽¹⁾	255.8	245.0	4.4%
Professional services	80.4	45.9	75.2%
Depreciation and amortization	60.1	58.3	3.1%
Occupancy	38.3	38.0	0.8%
General and administrative	69.6	66.0	5.5%
Total expenses	\$ 821.4	\$ 767.7	7.0%

(1) NYSE Market's SIAC support expense does not equal SIAC Services' revenues from data processing fees from NYSE due to certain fees billed to the NYSE by SIAC relate to software developed for the NYSE's internal use and as such have been capitalized.

NYSE Market Compensation

	Year Ended December 31,		Percent Increase (Decrease)
	2004	2003	
(amounts in millions)			
Salaries and Bonus	\$ 179.0	\$ 163.7	9.3%
Benefits and Other	100.4	116.4	(13.8)%
Total compensation	\$ 279.4	\$ 280.1	(0.3)%

Compensation. For the year ended December 31, 2004, compared to 2003, compensation was down \$0.7 million. Average headcount grew to 1,551 employees from 1,526, due principally to increased staffing in NYSE Regulation and other customer oriented areas. Reflecting competitive market forces, especially for regulatory personnel, the average salary across the NYSE increased 2.1% in 2004. These increases, as well as higher medical benefit and bonus expense, were offset by a change in the NYSE's Supplemental Executive Retirement Program, which reduced the cost of these benefits, and the nonrecurring nature of the one-time deferred compensation accrual for the former chairman and chief executive officer in 2003.

Systems and SIAC Support. For the year ended December 31, 2004, compared to 2003, systems costs increased \$3.4 million or 9.9%. Maintenance contracts, vendor services and additional operating lease expenses contributed to the increase. SIAC support increased \$10.8 million or 4.4%, due to an increase for funding of key initiatives related to trading floor technology, the NYSE's share of costs for SIAC's workforce reduction and physical security enhancements.

Professional Services. For the year ended December 31, 2004, compared to 2003, professional services expense rose \$34.5 million, or 75.2%. This change was driven by higher legal and consulting expense, higher investment management fees and other related expenditures, including corporate governance and business development. Legal fees, net of insurance reimbursements in the current year, totaled \$28.2 million in 2004 compared with \$12.5 million in 2003. Legal fees in 2004, representing 35.1% of professional services for NYSE Market, were incurred principally in connection with the specialist

investigation, litigation related to the former chairman and chief executive officer of the NYSE, and a patent infringement case. Consulting fees increased due to the numerous initiatives undertaken across the organization.

Depreciation and Amortization. For the year ended December 31, 2004, compared to 2003, depreciation and amortization expense rose \$1.8 million, or 3.1%, as NYSE capital expenditures nearly doubled to \$82.3 million from \$43.3 million. The NYSE saw an increase in expenditures across all areas, including investments in infrastructure and trading floor technology. In addition, through 2004, the NYSE completed a review of its depreciation policies to better reflect useful life of the assets. This review resulted in additional expense of \$1.7 million and will lead to higher anticipated depreciation expense in future years, reflecting generally shorter depreciation lives.

Occupancy. For the year ended December 31, 2004, compared to 2003, occupancy costs rose due to higher operating and electricity costs, a \$0.3 million, or 0.8%, increase.

General and Administrative. For the year ended December 31, 2004, compared to 2003, general and administrative expense rose \$3.6 million, or 5.5%, to \$69.6 million. Non-advertising general and administrative expense was essentially flat, while advertising increased.

Expenses SIAC Services

Overview. The following table sets forth the expenses attributable to SIAC Services for the years ended December 31, 2004 and December 31, 2003, as well as the percentage increase or decrease for each consolidated statement of income item for the year ended December 31, 2004, as compared to such item for the year ended December 31, 2003.

SIAC Services

	Year Ended December 31,		Percent Increase (Decrease)
	2004	2003	
	(amounts in millions)		
Expenses:			
Compensation	\$ 248.5	\$ 245.1	1.4%
Systems	100.8	111.6	(9.7)%
Professional services	57.3	54.9	4.4%
Depreciation and amortization	35.6	30.7	16.0%
Occupancy	30.3	29.0	4.5%
General and administrative	14.7	10.5	40.0%
Total Expenses	\$ 487.2	\$ 481.8	1.1%

SIAC Services Compensation

	Year Ended December 31,		Percent Increase (Decrease)
	2004	2003	
	(amounts in millions)		
Salaries and Bonus	\$ 180.7	\$ 186.9	(3.3)%
Benefits and Other	67.8	58.2	16.5%
Total compensation	\$ 248.5	\$ 245.1	1.4%

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Compensation. For the year ended December 31, 2004, compared to 2003, compensation increased \$3.4 million, or 1.4%, to \$248.5 million. Increased expenses were primarily due to decommissioning charges for a major customer, which in 2004, internalized the services previously provided by SIAC, as well as benefit expenses associated with workforce reduction. Average headcount (average of the month-end headcount during the period) dropped from 1,724 in 2003 to 1,599 in 2004, but did not impact the full year 2004 due to timing of the reductions.

Systems. For the year ended December 31, 2004, compared to 2003, systems costs decreased \$10.8 million, or 9.7%, to \$100.8 million, primarily due to Sector's cost containment initiatives and reductions of communications expenses.

Professional Services. For the year ended December 31, 2004, compared to 2003, professional services increased \$2.4 million, or 4.4%, to \$57.3 million. Average contract staff headcount increased slightly to 262 in 2004 from 251 in 2003 as new projects contributed to the need for additional services. Transition costs related to the decommissioning of services from a major customer also contributed to the increase.

Depreciation and Amortization. For the year ended December 31, 2004, compared to 2003, depreciation and amortization increased \$4.9 million, or 16.0%, to \$35.6 million. A review of depreciation policies in an effort to better reflect estimates of certain assets' lives occurred in 2004, which resulted in additional expense of \$5.9 million in 2004 and will lead to higher anticipated depreciation expense in future years, reflecting generally shorter depreciation schedules. Capital expenditures in 2004 of \$7.5 million also contributed to the increase.

Occupancy. For the year ended December 31, 2004, compared to 2003, occupancy costs increased \$1.3 million, or 4.5%, to \$30.3 million due primarily to rent for additional offsite space.

General and Administrative. For the year ended December 31, 2004, compared to 2003, general and administrative expense rose \$4.2 million, or 40.0%, to \$14.7 million, owing primarily to expenses related to the transition of services to a major customer, in 2004 internalized services previously provided to it by SIAC.

Income Taxes

The overall effective tax rate for the years ended December 31, 2004 and December 31, 2003 was 33.7% and 42.3%, respectively. A decrease in net income before provision for income taxes of \$60 million and the receipt of \$6.4 million in 2004 of non-taxable insurance proceeds as a result of the September 11, 2001 events drove the year-over-year decrease in effective tax rate.

The following table sets forth the provision for income taxes, and the overall effective tax rate for the NYSE, on a consolidated basis, as well as for its two operating segments NYSE Market and SIAC Services for the years ended December 31, 2004 and December 31, 2003.

	Year Ended December 31,			
	2004		2003	
	Provision for Income Taxes	Overall Effective Tax Rate	Provision for Income Taxes	Overall Effective Tax Rate
	(amounts in millions)		(amounts in millions)	
NYSE on a consolidated basis	\$ 15.8	33.7%	\$ 45.2	42.3%
NYSE Market	14.0	33.2%	42.8	42.5%
SIAC Services	1.8	37.5%	2.4	39.1%
	59			

Liquidity and Capital Resources

Historically, the NYSE's primary source of liquidity has been cash generated by the NYSE's operations and its liquidity requirements have been for working capital, capital expenditures and general corporate purposes. The NYSE's working capital was \$779.2 million at December 31, 2005. The NYSE's capital expenditures equaled \$105.7 million for the year ended December 31, 2005. NYSE Market's capital expenditures (not including SIAC Services) equaled \$84.2 million for the year ended December 31, 2005. NYSE Group's capital expenditures are expected to continue to relate primarily to the development and maintenance of NYSE's corporate and regulatory systems and to its trading technology, including expenditures relating to the development and implementation of NYSE Hybrid MarketSM and compliance with Regulation NMS.

Cash and cash equivalents are generated primarily from NYSE's listing services, sales of market information, collection of activity assessment fees (which are fully remitted to the SEC), data processing services provided by SIAC, collections of regulatory fees (which are based on FOCUS filing amounts), fees generated for trading (which are generally based on volume and commissions subject to certain caps), and investment income.

At December 31, 2005, the NYSE had \$43.5 million of cash and cash equivalents, an increase of \$28.0 million from its cash and cash equivalents at December 31, 2004. Current assets readily convertible into cash include accounts receivable, securities purchased under agreements to resell and marketable securities. These assets totaled \$1,280.1 million at December 31, 2005 and, when combined with cash and cash equivalents, represented 90.4% of NYSE's current assets.

With respect to investment activities, the boards of directors of the NYSE and SIAC have separately approved investment policies for externally managed portfolios. The goals of these policies are to preserve principal, maintain adequate liquidity at all times to fund budgeted operating and capital requirements, and to maximize returns relative to investing guidelines and market conditions. The NYSE's policies prohibit it from investing in equity securities. The NYSE's policies require that all securities must be rated AA or better by two nationally recognized rating organizations and must be invested in U.S. dollar denominated securities. A portion of SIAC's portfolio is used to fund its non-qualified benefit obligations. The average duration of the portfolios for both the NYSE and SIAC must not exceed two years. Both the NYSE and SIAC periodically review their respective policies and investment managers.

The NYSE Group's future cash flows could fluctuate as a result of a number of factors, including: (1) changes in the demand for the NYSE's services resulting from changes in the number of initial public offerings (which generate original and annual listing fees) or the number of NYSE-listed companies that delist from the NYSE (which has an impact on annual listing fees collected by the NYSE); (2) changes in the NYSE's share of Tape A trades (which has an impact on the amount of market information revenues that the NYSE collects); (3) changes in the demand for data processing services from SIAC customers; (4) changes in volume or commissions on which trading fees are generated; (5) changes in FOCUS revenues reported by NYSE members (on which regulatory fees are calculated); and (6) changes in the fixed income environment in which the NYSE's investment portfolio is primarily invested. The NYSE implemented certain changes to its pricing for floor facility fees, which were approved by the SEC on December 29, 2005 and became effective as of January 1, 2006. NYSE Group cannot predict the impact that such fee changes will have on liquidity, as a portion of these pricing changes are based on volumes traded in NYSE-listed securities, which cannot be projected. The NYSE has also introduced trading licenses, of which 1,274 were sold at an annualized price of \$49,290.

As of December 31, 2005, the NYSE had \$43.5 million of cash, had no outstanding short-term or long-term debt, and had no lines of credit. NYSE Group believes that cash flows from operating activities are sufficient for it to fund its current operations for at least the next 12 months, such as legal and other

related items. If existing cash balances are insufficient, NYSE Group intends to seek additional financing. NYSE Group may not be able to obtain additional financing on acceptable terms or at all.

In January 2006, the NYSE entered into a standby letter of credit of \$265,000. The standby letter of credit is intended to be utilized by an insurance vendor as part of the vendor's collateral requirements. NYSE Group will fund any additional collateral requirements from operating cash flows and, as such, does not intend to use this standby letter of credit.

Operating Activities

Operating cash flows equaled \$264.5 million for the year ended December 31, 2005, consisting of net income of \$40.7 million and the effects of non-cash expenses and changes in working capital. The NYSE remitted payments to the SEC biannually and, as of December 31, 2005, recorded a \$232.1 million payment to the SEC. Amounts are collected from NYSE members under Rule 440h in order to cover the SEC Section 31 fees.

Investing Activities

Net cash used in investing activities equaled \$222.2 million for the year ended December 31, 2005. This cash was used to make additional investments in marketable securities and capital expenditures in upgrading the NYSE's trading floor technology and corporate and regulatory systems.

Quantitative and Qualitative Disclosure About Market Risk

Market risk represents the risks of changes in the fair value of financial instrument, derivative or non-derivative, caused by fluctuation in interest rates and equity prices. Our primary market risk is associated with fluctuations in interest rates and the effects that such fluctuations may have on our investment portfolio. As of December 31, 2005, investments consist of fixed income instruments with an average duration of 0.57 years for NYSE Market. SIAC's investments at December 31, 2005 consisted of mutual funds. Both portfolios investment objective is to invest in securities to preserve principal while maximizing yields, without significantly increasing risk. These investment securities are subject to interest rate risk and their fair values may fluctuate with changes in interest rates. Management does not believe that a 100 basis point fluctuation in market interest rates will have a material effect on income or cash flows from, or the carrying value of, the investment portfolios as of December 31, 2005.

We do not believe that we have material exposure to interest rate or foreign currency risks as of December 31, 2005. Furthermore, we have not entered into any derivative contracts to mitigate such risks.

Summary Disclosures About Contractual Obligations

The table below summarizes the NYSE's future minimum lease obligations on its operating and capital leases as of December 31, 2005.

	Payments due by year						
	Total	2006	2007	2008	2009	2010	Thereafter
	(in thousands)						
Operating lease obligations	\$ 320,342	\$ 57,740	\$ 50,746	\$ 39,977	\$ 35,246	\$ 35,722	\$ 100,911
Capital lease obligations	22,604	8,973	7,422	5,669	540		
Total	\$ 342,946	\$ 66,713	\$ 58,168	\$ 45,646	\$ 35,786	\$ 35,722	\$ 100,911

The NYSE also has obligations related to the deferred compensation and other post-retirement benefits. The date of payment under these obligations cannot be determined.

Critical Accounting Policies and Estimates

The following provides information about our critical accounting estimates. Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, and potentially result in materially different results under different assumptions and conditions.

Revenue Recognition

Listing fees include original fees, which are paid whenever a company initially lists on the NYSE and whenever it effects a corporate action that results in the listing of additional shares. Companies also pay annual fees to remain listed on the NYSE. Annual fees are recognized ratably over the course of the related period. Original fees are recognized on a straight-line basis over their estimated service period.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is maintained at a level that management believes to be sufficient to absorb probable losses in the NYSE's accounts receivable portfolio and is assessed periodically by management. Increases in the allowance for doubtful accounts are charged against operating results and the allowance is decreased by the amount of write-offs, net of recoveries. The allowance is based on several factors, including a continuous assessment of the collectibility of each account. In circumstances where a specific customer's inability to meet its financial obligations is known, the NYSE records a specific provision for bad debts against amounts due to reduce the receivable to the amount it reasonably believes will be collected. Accounts with outstanding balances in excess of 60 to 90 days are reviewed monthly to make changes to the allowance as appropriate.

Income Taxes

The objective of accounting for income taxes is to recognize the amount of taxes payable or refundable for the current year and deferred tax assets and liabilities for the future tax consequences of events that have been recognized in an entity's financial statements or tax returns. We review its deferred tax assets for recovery; when we believe that it is more likely than not that a portion of its deferred tax assets will not be realized, a valuation allowance is established. Significant judgment is required in assessing the future tax consequences of events that have been recognized in our financial statements or tax returns. Fluctuations in the actual outcome of these future tax consequences could have a material impact on our financial position or results of operations.

Pension and Other Post-Retirement Employee Benefits (OPEB)

Pension and OPEB costs and liabilities are dependent on assumptions used in calculating such amounts. These assumptions include discount rates, health care cost trend rates, benefits earned, interest cost, expected return on plan assets, mortality rates, and other factors. In accordance with U.S. generally accepted accounting principles, actual results that differ from the assumptions are accumulated and amortized over future periods and, therefore, generally affect recognized expense and the recorded obligation in future periods. While management believes that the assumptions used are appropriate, differences in actual experience or changes in assumptions may affect our pension and other post-retirement obligations and future expense.

Software Development

We account for software development costs under AICPA Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," and other related guidance. We expense software development costs as incurred during the preliminary project stage, while it capitalizes costs incurred during the application development stage, which included design, coding, installation and testing activities. Amortization of capitalized software development costs is computed on a straight-line basis over the software's estimated useful life, generally three years.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF
ARCHIPELAGO**

Business Development

Archipelago's business grew substantially since it began trading operations in January 1997 on the Archipelago ECN, the precursor to ArcaEx (which, together with the Pacific Exchange, is now known as NYSE Arca). Archipelago attributes the growth of its business to the change in its business model and its organic and external growth. These developments included:

Archipelago's Alliance with (and Subsequent Acquisition of) the Pacific Exchange. Beginning in March 2002, Archipelago began the migration of trading activities in exchange-listed securities to ArcaEx, which it extended to Nasdaq-listed securities on a phased basis in February 2003. During this transition period, Archipelago continued to operate the Archipelago ECN until Archipelago completed the migration of all Nasdaq-listed securities to ArcaEx in April 2003. We refer to the Archipelago ECN and ArcaEx, collectively, as the Archipelago system. As the operator of the exclusive equities trading facility of PCX Equities, Archipelago became eligible to earn revenues from two additional sources, market data fees and listing fees, and Archipelago also reduced its clearing costs. On September 26, 2005, Archipelago completed its acquisition of PCX Holdings and its subsidiaries. As a result of its acquisition of PCX Holdings, Archipelago operates an exchange for trading equity options listed on exchanges, including the facilities, technology, systems and regulatory surveillance and compliance services required for the operation of a marketplace for trading options.

Strategic Transactions. In 2002, Archipelago completed two strategic transactions: Archipelago's merger with REDIBook ECN LLC, and Archipelago's acquisition of GlobeNet Securities, Inc. REDIBook was a competing ECN that had a trading share similar to Archipelago's ECN at the time of the acquisition. The REDIBook acquisition allowed Archipelago to significantly increase Archipelago's trading volume in Nasdaq-listed securities. In the GlobeNet acquisition, Archipelago acquired intangible technology assets; including a matching engine technology platform that GlobeNet had used to develop an alternative trading system for bulletin board stocks. This acquisition increased Archipelago's technology resources, which led to the development of software applications for Archipelago's trading platform.

Growth in Trading Volumes and Increased Internal Match Rate. Through internal growth and the REDIBook merger, Archipelago was able to increase its share volumes in U.S. equity securities traded on the Archipelago system. See " Key Statistical Information." Archipelago's transaction fees accounted for 93.5% of its total revenues in 2003, 89.5% of its total revenues in 2004 and 86.1% of its total revenues in 2005.

As discussed above, in recent years, Archipelago has experienced significant growth in its trading volumes, which exceeded its growth in revenues. This trend resulted from declining revenue per transaction, which we believe has been driven by increased price competition and the resulting shift in the market fee structure. In addition to growth in trading volumes, Archipelago witnessed an increasing percentage of share volume (as well as of shares handled on ArcaEx) executed within its internal liquidity pool or "matched internally." We believe that this trend has been driven by: (i) industry consolidation, its acquisitions and a more competitive market environment; (ii) the migration of its trading operations to a more reliable trading platform in connection with the launch of ArcaEx, which we believe has attracted more customers to its system; and (iii) its sales and marketing efforts and its customers' pursuit of greater cost efficiencies, which led them to rely on Archipelago's technology and embed it in their infrastructure, enabling them to do business with Archipelago more easily. The trend of increased internally matched trades contributed to Archipelago's improved gross margin in absolute terms and as a percentage of its total revenues (due primarily to lower clearing costs for trades matched internally and increased revenues

from market data fees generated by these types of trades), despite the decline in Archipelago's average transaction-related gross margin per share until the first quarter of 2004.

Business Environment

Like the NYSE, Archipelago operated in a business environment characterized in recent years by challenging business and economic conditions, intense competition among market participants and an increased focus on electronic trading due to technological advancements and regulatory changes. Archipelago's business was impacted by the following key factors:

trading volumes in U.S. equity securities and options, which are driven by overall macroeconomic conditions;

competition (in terms of trading share, pricing and product and service offerings);

technological advancements; and

regulatory developments.

The interplay of these factors affected Archipelago's revenues, gross margin and profitability. For a discussion of these factors and their impact on Archipelago's historical results, see "Management's Discussion and Analysis of Financial Condition and Results of Operations of Archipelago Sources of Revenues Components of Expenses and Results of Operations." See also "Management's Discussion and Analysis of Financial Condition and Results of Operations of the NYSE Business Environment" and "Risk Factors Market fluctuations and other risks beyond our control could significantly reduce demand for our services and harm our business."

Archipelago Reorganization

On August 11, 2004, Archipelago converted from a Delaware limited liability company (Archipelago Holdings, L.L.C.) to a Delaware corporation (Archipelago Holdings, Inc.). Archipelago's conversion to the corporate form of organization did not have any material effect on its consolidated financial statements. When we use the term "Archipelago" in the following discussion, we mean, prior to the conversion, Archipelago Holdings, L.L.C., a Delaware limited liability company, and its consolidated subsidiaries and, after the conversion, Archipelago Holdings, Inc., a Delaware corporation, and its consolidated subsidiaries.

Income Taxes

As a limited liability company, Archipelago was treated as a partnership for federal, state and local income tax purposes. As a result, all items of income, expense, gain and loss of Archipelago were generally reportable on the tax returns of members of Archipelago Holdings, L.L.C. Accordingly, Archipelago made no provisions for income taxes at the company level.

Following Archipelago's conversion to a corporation, its earnings were subject to federal, state and local income taxes at a combined rate of approximately 42.5% and 41.5% for the year ended December 31, 2005 and 2004, respectively. For the year ended December 31, 2004, Archipelago's effective tax rate was 9.2% primarily because the taxable income Archipelago generated from January 1, 2004 through August 11, 2004 the date Archipelago converted to the corporate form of organization was the responsibility of Archipelago Holdings, L.L.C.'s members. Archipelago does not have any deferred tax assets related to Archipelago Holdings, L.L.C.'s net operating loss carry forwards, as those losses were incurred when it was treated as a partnership for federal income tax purposes.

Segment Reporting

For financial reporting purposes, Archipelago's business was divided into two reportable segments: Transaction Execution Services and Agency Brokerage Services. Archipelago's Transaction Execution

Services business included trade execution on the Archipelago system as well as fees Archipelago received for market data and from issuers with equity securities listed on the Pacific Exchange for trading on ArcaEx. Archipelago's trade execution customers were required to hold an ETP or be a broker-dealer introduced to ArcaEx by an ETP holder in order to trade on ArcaEx. An ETP holder must be a broker-dealer. Archipelago's Agency Brokerage Services were provided through Wave Securities, Archipelago's broker-dealer subsidiary, and consisted of order execution services, on an agency basis, for orders received exclusively from institutions involving primarily exchange-listed securities.

Because Archipelago's Agency Brokerage Services were discontinued, the information required to be disclosed by SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, is no longer required.

Following the September 2005 acquisition of PCX Holdings, Archipelago's business was divided into two reportable segments: ArcaEx Equities and ArcaEx Options. The ArcaEx Equities business included the reportable segment formerly named Transaction Execution Services. The ArcaEx Options business consisted primarily of transaction execution services, market data services on a real-time or summary basis and a trading venue for issuers of options contracts. The customers of ArcaEx Options were required to hold an Option Trading Permit, or OTP.

Sources of Revenues

Transaction Execution Services

In its transaction execution business, Archipelago derived revenues from three sources: transaction fees, market data fees and listing and other fees.

Transaction Fees. Archipelago's revenues in its transaction execution services segment were derived primarily from transaction fees, which Archipelago charged customers for trade execution of equity securities on the Archipelago system and equity options on the Pacific Exchange. Archipelago earned transaction fees for (i) customer orders of equity securities matched internally on ArcaEx, as well as for customer orders routed out, and (ii) customer orders of equity options traded or cleared through the Pacific Exchange.

For equity securities, Archipelago charged a per share fee (denominated in tenths of a cent per share) to each customer that executed against a buy order or sell order posted internally on the Archipelago system. Archipelago referred to these customers when they purchase or sell securities as "liquidity takers," as they removed liquidity from the Archipelago system. A liquidity taker may be either a purchaser or a seller, and is distinguished from a "liquidity provider" generally by the type of buy order or sell order it posts on Archipelago's system. A liquidity provider will likely enter a non-marketable limit order on the Archipelago system (i.e., either a limit order to buy a security with a limit price below the best offer or a limit order to sell a security with a limit price above the best bid). Non-marketable limit orders were placed on the Archipelago limit order book and await execution. A liquidity taker, on the other hand, is likely to enter a marketable limit order (i.e., a limit order to buy a security with a limit price at or above the best offer or a limit order to sell a security with a limit price at or below the best bid for that security). Accordingly, liquidity providers generally "post" buy orders or sell orders that are subsequently executed against by the sell order or buy order, as the case may be, of a customer that is the liquidity taker. As discussed below, Archipelago paid liquidity providers a per share fee for posting buy orders and sell orders on Archipelago's system.

Archipelago also charged a per share fee (denominated in tenths of a cent per share) to customers whose orders of equity securities were routed out to an external market center displaying the best buy order or sell order in the market for a particular security.

The amount of transaction fees Archipelago earned for trading of equity securities in any period fluctuated based upon (i) trading volumes of shares handled and (ii) the prices Archipelago charged for

trade execution. As a result of increased price competition, in the past Archipelago reduced the amount per share it charged customers for taking liquidity from the Archipelago system, as well as for routing orders to an external market center.

Market Data Fees. Following the launch of ArcaEx in March 2002, Archipelago began earning revenues from market data fees in connection with the sale of its market data pursuant to the Consolidated Tape Association Plan, or CTA Plan, in the case of exchange-listed securities, and the Nasdaq OTC/UTP Plan, in the case of Nasdaq-listed securities. As an ECN, Archipelago was ineligible to participate in these Plans directly. Under the Plans, the information collected from all participants was sold to data vendors that in turn sold the data to third-party consumers such as Thomson Financial Inc. and Bloomberg, L.P. Under the CTA Plan, Archipelago's market data fees were directly related to both the percentage of its trades in exchange-listed securities executed on ArcaEx that were reported through the CTA Plan and the size of the revenue sharing pool. Under the Nasdaq OTC/UTP Plan, Archipelago shared revenues with Nasdaq and exchanges that are members of the Nasdaq OTC/UTP Plan and that trade Nasdaq-listed securities. The market data fees Archipelago received under this plan were directly related to the total shares and trades that are executed on ArcaEx as a percentage of all shares and trades executed in Nasdaq-listed securities. Archipelago did not earn market data fees in connection with customer orders or shares handled that were routed out to an external market center for execution.

In 2005, Archipelago rebated 50% of the market data fees it received under the CTA Plan to customers that traded exchange-listed securities (except with respect to NYSE-listed securities), including exchange-traded funds, on ArcaEx based on their aggregate exchange-listed trading activity. Archipelago introduced this revenue rebate plan in the fourth quarter of 2002, and set the rate at 50% in response to competitive market conditions. In the future NYSE Arca may, at its discretion, change the percentage of fees it rebates or eliminate the plan. For financial reporting purposes, Archipelago recorded its market data fees net of amounts rebated to customers under this revenue rebate arrangement. Archipelago rebated approximately 27.6% of the total market data fees it received in both 2005 and 2004. Archipelago initiated its revenue rebate plan to encourage customers to execute trades of exchange-listed securities on ArcaEx and to remain competitive with other market centers. The SEC does not permit market data fees generated under the Nasdaq OTC/UTP Plan to be rebated to participants in this manner.

Listing Fees. Under Archipelago's facility services agreement with the Pacific Exchange, Archipelago was entitled as the operator of ArcaEx to all listing fees from issuers that list their equity securities on the Pacific Exchange. After launching ArcaEx in March 2002, Archipelago began receiving listing fees from legacy issuers that had selected the Pacific Exchange as a listing venue and maintained their listing following the creation of ArcaEx, as well as from new listings on the Pacific Exchange. Since the launch of ArcaEx in March 2002, there have been only 6 new listings of equity securities on the Pacific Exchange. Listing fees represented less than 1.0% of Archipelago's total revenues in 2005.

Activity Assessment Fees and Section 31 Fees. In 2005, Archipelago paid SEC fees pursuant to Section 31 of the Exchange Act. These fees were designed to recover costs incurred by the government for the supervision and regulation of securities markets and securities professionals. Archipelago, in turn, collected activity assessment fees from ETP and OTP holders trading on ArcaEx and the Pacific Exchange, respectively, and paid Section 31 fees to the SEC based on fee schedules determined by the SEC. Fees received were included in cash and cash equivalents at the time of receipt, and, as required by law, the amount due to the SEC is recorded as an accrued liability and remitted semiannually. Following the September 2005 acquisition of PCX Holdings, activity assessment fee revenue and Section 31 fee expense were presented gross on Archipelago's consolidated statement of operations. Activity assessment fee revenue and Section 31 fee expense had no impact on Archipelago's consolidated statement of operations.

Quarterly Fluctuations

In the securities industry, quarterly revenue fluctuations are common and are due primarily to variations in trading volumes, competition and technological and regulatory changes. Typically, revenues are lowest in the third quarter, primarily in August, due to reduced trading activity during the summer months.

Related Party Revenues

Some of Archipelago customers were also its investors. Revenues generated from Archipelago's investors represented 38.0%, 43.3% and 42.8% of its total revenues, respectively, in 2005, 2004 and 2003. Archipelago generated 9.6%, 10.2% and 14.2% of its total revenues, respectively, in 2005, 2004 and 2003 from The Goldman Sachs Group, Inc. and its subsidiaries. For more information regarding Archipelago's transactions with its investors as its customers, see Archipelago's Consolidated Financial Statement and Note 13 thereto included elsewhere in this prospectus.

Components of Expenses

Cost of Revenues

Archipelago's business was dependent on the liquidity of the Archipelago system (i.e., the number and range of buy orders and sell orders posted on its system and available to its customers). As a result, Archipelago's most significant cost of generating revenues was the cost of liquidity, which Archipelago paid for in one of two ways. First, to enhance the liquidity of its system, Archipelago paid a small fee per share (denominated in tenths of a cent per share) to participants, referred to as "liquidity providers," that posted buy orders and sell orders on the Archipelago system, when the quote was executed against, or "hit," by liquidity takers purchasing or selling securities internally on Archipelago's system. Archipelago began incurring the cost of liquidity payments in April 2002. Archipelago did not pay these fees for orders posted in NYSE-listed securities. Second, as part of its best execution business model, Archipelago incurred routing charges when the Archipelago system did not have the best buy or sell order in the market for a security that a customer was trying to buy or sell on Archipelago's system. In that case, Archipelago routed the customer's order to the external market center that displayed the best buy order or sell order. The external market center charged Archipelago a fee per share (denominated in tenths of a cent per share) for routing to its system.

As a general matter, the pricing model for transaction execution services has changed over time in response to increasing competition. As the amount of liquidity is determined by the number and ranges of buy or sell orders posted to a particular trading platform, the concept of paying liquidity providers developed to encourage these customers to place their orders on the trading system that paid them a per share fee to post their order. As discussed above, Archipelago began paying fees to liquidity providers in April 2002. Making liquidity payments and incurring routing charges are part of the costs Archipelago incurs to generate revenues through increased liquidity on the Archipelago system. Archipelago sought to reduce these costs by increased trade execution on the Archipelago system. Archipelago's cost of liquidity generally fluctuated based on (i) trading volumes and (ii) the per share fee Archipelago paid liquidity providers for trades executed internally on ArcaEx or the per share routing charge Archipelago paid to external market centers for outbound trades. Under Regulation NMS, liquidity payments and routing charges could be functionally eliminated due to the cap that would be imposed on access fees, which could impact the liquidity of NYSE Arca's platform.

In addition to liquidity payments and routing charges, Archipelago also incurred clearance, brokerage and related transaction expenses, which included transaction expenses paid to clearing entities for clearing and settlement, service fees paid per trade to exchanges for trade execution, costs incurred due to erroneous trade execution and charges Archipelago recorded from time to time for doubtful accounts, or bad debt, once Archipelago determined a receivable was not likely to be collected. Prior to the completion

of the PCX Holdings acquisition, the contractual right to operate ArcaEx as the exclusive equities trading facility of the Pacific Exchange and PCX Equities (and following the completion of the PCX Holdings acquisition, Archipelago's ownership of the Pacific Exchange and PCX Equities), allowed Archipelago not to incur clearing charges for trades executed on ArcaEx by two independent market participants. As a result, Archipelago's cost per trade was lower for trades executed internally on ArcaEx. If Archipelago routed a trade to an external market center, it bears clearing and settlement costs.

Indirect Expenses

In addition to Archipelago's direct cost of revenues, Archipelago incurred the following indirect expenses:

NYSE merger costs and related executive compensation;

employee compensation and benefits expenses, which included salaries, incentive compensation (including stock-based compensation) and related employee benefits and taxes;

depreciation and amortization expenses, which resulted primarily from the depreciation of the fixed assets Archipelago purchases, including computer software and hardware used in the development of Archipelago's trading systems;

communications expenses, which consisted primarily of costs for Archipelago's network connection with its customers and its data centers, as well as connectivity to various other market centers;

marketing and promotion expenses, which consisted primarily of media, print and other advertising expenses as well as customer marketing expenses;

legal and professional expenses, which consisted primarily of legal and accounting expenses;

occupancy expenses, which consisted primarily of rental expenses; and

general and administrative expenses, which included insurance, travel and entertainment expenses and other administrative expenses and general office costs.

As a public company, Archipelago was subject to the provisions of the Sarbanes-Oxley Act of 2002, which required it to incur significant expenditures to establish systems, and to hire and train personnel to comply with these requirements.

In addition, starting in the first quarter of 2006, Archipelago is required to recognize in its financial statements the compensation costs associated with share-based payment transactions, including stock options. For the year ending December 31, 2006, management anticipates that Archipelago will recognize a pre-tax expense of approximately \$2.0 million in connection with share-based payment transactions.

Key Statistical Information

Archipelago's revenues and gross margin were directly impacted by trading volumes of U.S. equity securities on the Archipelago system. Archipelago's profitability depended to a significant extent on its ability to attract and retain trading volumes, both in absolute terms and relative to other market centers. Archipelago derived revenues on both a per-share basis and a per-transaction basis, depending upon the source of revenue. The transaction fees Archipelago received for trade execution and the payments Archipelago made to liquidity providers were determined on a per share basis. Market data fees for exchange-listed securities were determined on a per transaction basis, and market data fees for Nasdaq-listed securities were determined based on a combination of share volume and transaction volume.

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The following table presents unaudited key transaction volume information, as well as selected operating information, for the periods presented. A description of how Archipelago calculates its trading share, its trading volumes and other operating measures is set forth below.

	Year ended December 31,		
	2005	2004	2003
Trading days	252	252	252
Total U.S. market volume (millions of shares) ⁽¹⁾	1,047,720	990,511	926,500
Archipelago's total U.S. market volume (millions of shares) ⁽¹⁾	144,318	140,306	116,800
Archipelago's share of total U.S. market volume ⁽¹⁾⁽²⁾	13.8%	14.2%	12.6%
% of handled shares matched internally ⁽³⁾	11.1%	10.9%	8.6%
% of handled shares routed out ⁽³⁾	2.7%	3.3%	4.0%
Total volume of Nasdaq-listed securities (millions of shares)	453,363	455,550	424,607
Archipelago's total volume of Nasdaq-listed securities (millions of shares)	104,271	115,008	104,312
Archipelago's share of total volume of Nasdaq-listed securities ⁽²⁾	23.0%	25.2%	24.6%
% of handled shares matched internally ⁽³⁾	18.4%	19.2%	16.8%
% of handled shares routed out ⁽³⁾	4.6%	6.0%	7.8%
Total volume of NYSE-listed securities (millions of shares)	523,615	460,455	439,608
Archipelago's volume in NYSE-listed securities (millions of shares)	18,855	8,375	4,904
Archipelago's share of total volume of NYSE-listed securities ⁽²⁾	3.6%	1.8%	1.1%
% of handled shares matched internally ⁽³⁾	2.8%	1.2%	0.5%
% of handled shares routed out ⁽³⁾	0.8%	0.6%	0.6%
Total volume of AMEX-listed securities (millions of shares)	70,742	74,506	62,285
Archipelago's volume in AMEX-listed securities (millions of shares)	21,192	16,924	7,585
Archipelago's share of total volume of AMEX-listed securities ⁽²⁾	30.0%	22.7%	12.2%
% of handled shares matched internally ⁽³⁾	25.8%	19.4%	9.4%
% of handled shares routed out ⁽³⁾	4.2%	3.3%	2.8%
Archipelago's ETF volume (millions of shares)	25,152	15,637	6,349
Archipelago's U.S. equity transaction volume (thousands of transactions)	486,683	416,629	295,107
Archipelago's average U.S. equity transaction size (shares per transaction)	297	337	396
Archipelago's average U.S. equity transactions per day (thousands of transactions)	1,931	1,653	1,176
Archipelago's average transaction-related revenue (per share) ⁽⁴⁾	\$ 0.0029	\$ 0.0031	\$ 0.0033
Archipelago's average transaction-related cost of revenue (per share) ⁽⁵⁾	\$ 0.0019	\$ 0.0021	\$ 0.0023
Archipelago's average transaction-related gross margin (per share) ⁽⁶⁾	\$ 0.0010	\$ 0.0010	\$ 0.0010
% of customer order volume matched internally ⁽⁷⁾	88.8%	86.6%	80.6%
% of customer order volume routed out ⁽⁷⁾	11.2%	13.4%	19.4%

(1) U.S. market volume is calculated based on the number of shares of equity securities traded on the NYSE, AMEX and Nasdaq, including exchange-traded funds, as reported in the consolidated tape. The "consolidated tape" is the system that continuously provides the last sale price and volume of securities transactions in listed securities to the public.

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- (2) Archipelago's trading share is calculated based on the number of shares handled on the Archipelago system as a percentage of total volume.
- (3) Represents Archipelago's share of the total volume of such securities handled on ArcaEx that was either matched internally on ArcaEx or routed out to an external market center.
- (4) The per share amount is calculated based on Archipelago's total revenues derived from equity transaction fees of \$425.0 million, \$434.5 million and \$380.6 million for the years ended December 31, 2005, 2004 and 2003, respectively.
- (5) The per share amount is calculated based on Archipelago's cost of revenues derived from transaction fees, which consist of routing charges and liquidity payments of \$273.6 million, \$292.2 million and \$268.1 million for the years ended December 31, 2005, 2004 and 2003, respectively. The cost of revenue from transaction fees used in the per share computation does not include clearance, brokerage and other transaction expenses.
- (6) The per share amount is calculated based on Archipelago's net revenues received from transaction fees, and Archipelago's total U.S. market volume for the relevant period.
- (7) The percentage of customer order volume matched internally is calculated by dividing the volume of customer orders executed within Archipelago's internal liquidity pool (including the volume of both buy orders and sell orders) by the total volume of customer orders (again including the volume of both buy orders and sell orders when such orders are matched internally). The percentage of customer orders routed out is calculated by dividing the volume of customer orders routed to other market centers by the total volume of customer orders.

For purposes of calculating its volume, Archipelago included all shares that are "handled" on the Archipelago system. Handled shares include both shares that were bought or sold within Archipelago's internal liquidity pool and shares that were routed to external markets for execution. Archipelago counted every transaction handled by the Archipelago system once; Archipelago did not count both sides of any transaction. For example, if a customer's 10,000 share buy order was matched with another customer's 10,000 share sell order in Archipelago's internal liquidity pool, Archipelago's handled volume would be 10,000 shares. As another example, if one of Archipelago's customers sent it an order to buy 10,000 shares and the best price for that order is displayed at another market center, Archipelago would have routed that order to the other market center for execution. The other market center would report a 10,000 share transaction in the consolidated tape, and Archipelago's handled volume would have been 10,000 shares. As a result, the 10,000 shares Archipelago reported as handled by it in this example were also handled by the external market center.

In computing the percentage of customer order volume matched internally and the percentage of customer order volume routed out, Archipelago calculated the percentage based on the volume of individual customer orders, not the volume of matched trades (i.e., only counting one side of a matched transaction). For example, Archipelago calculated two customer orders matched internally on its system as two customer orders matched internally, and it included the volume of both the buy order and the sell order in computing its percentages of customer order volume matched internally and routed out. Archipelago calculated one customer order routed to an external market center (which was matched with an order at that other market center) as one outbound trade or one customer order. Archipelago calculated one customer order routed to it from an external market center and matched with an order on its system as one inbound trade or one customer order.

Transactions in Nasdaq and exchange-listed securities are reported in the consolidated tape, a high-speed system that continuously provides last sale price and volume in listed securities. Archipelago's handled volume was higher than its volume reported to the centralized aggregators for inclusion in the consolidated tape for two reasons. First, Archipelago did not report trades routed to another market center to the centralized aggregators of this data. Instead, the destination market center reported these trades. For example, if a customer's 10,000 share buy order was routed to another market center for execution, Archipelago's handled volume would have been 10,000 shares, but it would not have reported the trade. Second, its handled volume included odd lot transactions, generally defined as trades of fewer than 100 shares, which, by rule, Archipelago did not report to the centralized aggregators for inclusion in the consolidated tape. For example, if one of Archipelago's customers bought 50 shares, its handled volume would have been 50 shares but it would not have reported this trade.

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For purposes of calculating its trading share, Archipelago used the volume of shares that were handled on the Archipelago system (as described above) as the numerator, and the aggregate volume of shares reported by all securities exchanges and associations in the consolidated tape as the denominator. Archipelago's trading share could have been expressed as:

$$\frac{\text{Number of shares handled on the Archipelago system}}{\text{Overall market volume as reported in the consolidated tape}}$$

As an alternative method of calculating trading share, Archipelago could have included in the numerator of the above formula only transactions that it reported in the consolidated tape. This would have excluded shares routed to other market centers and odd-lot transactions from its trading share calculation.

For purposes of calculating the percentage of handled shares matched internally or routed out, Archipelago counted all shares that were "handled" on the Archipelago system as described above. Archipelago counted every transaction handled by the Archipelago system once; Archipelago did not count both sides of any transaction. Therefore, if five trades were executed on ArcaEx for 10,000 shares each, three of which are routed out, Archipelago would have handled 50,000 shares and its percentage of that share volume matched internally would have been 40% and routed out would have been 60%.

Alternatively, for the purpose of calculating the percentage of customer order volume matched internally or routed out, Archipelago counted each customer order exactly once. If two customers' orders were matched within its internal liquidity pool, Archipelago counted the volume of both the buy order and the matched sell order. On the other hand, if a customer's order was routed to another market center and matched with an order posted at that other market center, Archipelago counted only the volume of the order routed out.

Results of Operations

The following table sets forth Archipelago's consolidated statements of operations data for the periods presented as a percentage of total revenues:

	Year ended December 31,		
	2005	2004	2003
Revenues:			
Transaction fees	86.1%	88.4%	92.8%
Activity assessment fees	9.7		
Market data fees	12.6	11.5	7.1
Listing fees	1.3	0.1	0.1
Total revenues	109.7	100.0	100.0
Section 31 fees	9.7		
Revenues, less Section 31 fees	100.0%	100.0%	100.0%
Cost of revenues:			
Liquidity payments	41.9%	41.4%	37.6%
Routing charges	13.5	18.1	27.7
Clearance, brokerage and other transaction expenses	1.2	2.8	11.0
Total cost of revenues	56.6	62.3	76.3
Gross margin	43.4%	37.7%	23.7%
Indirect expenses:			
NYSE merger costs and related executive compensation	9.3%		
Other employee compensation and benefits	10.5	7.8%	8.8%
Depreciation and amortization	4.4	4.7	6.3
Communications	4.0	3.3	4.5
Marketing and promotion	4.5	4.1	2.0
Legal and professional	2.6	2.3	2.0
Occupancy	1.4	0.9	1.0
General and administrative	3.3	2.3	2.4
Total indirect expenses	40.0%	25.4%	27.0%
Operating income (loss)	3.4%	12.3%	(3.3)%
Interest and other, net	0.9	0.3	0.1
Income (loss) before income tax provision	4.3%	12.6%	(3.2)%
Income tax provision	1.9	1.1	
Income (loss) from continuing operations	2.4%	11.5%	(3.2)%
Income from discontinued operations	0.8	2.3	3.6
Net income	3.2%	13.8%	0.4%
Deemed dividend on convertible preferred shares		(2.0)	
Net income attributable to common stockholders	3.2%	11.8%	0.4%

Explanation of Responses:

Year ended December 31,

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Year Ended December 31, 2005 versus Year Ended December 31, 2004

The following table sets forth Archipelago's consolidated statements of operations data for the periods presented (in millions):

	Year ended December 31,		Amount Change	Percentage Change
	2005	2004		
Revenues:				
Transaction fees	\$ 425.0	\$ 434.5	\$ (9.5)	(2.2)%
Activity assessment fees	48.0		48.0	100.0
Market data fees	62.0	56.4	5.6	9.9
Listing fees	6.4	0.4	6.0	1,500.0
Total revenues	541.4	491.3	50.1	10.2
Section 31 fees	48.0		(48.0)	(100.0)
Revenues, less Section 31 fees	493.4	491.3	2.1	0.4%
Cost of revenues:				
Liquidity payments	206.9	203.5	(3.4)	(1.7)%
Routing charges	66.7	88.7	22.0	24.8
Clearance, brokerage and other transaction expenses	5.9	13.7	7.8	56.9
Total cost of revenues	279.5	305.9	26.4	8.6
Gross margin	213.9	185.4	28.5	15.4
Indirect expenses:				
NYSE merger costs and related executive compensation	46.1		(46.1)	(100.0)%
Other employee compensation and benefits	51.6	38.4	(13.2)	(34.4)
Depreciation and amortization	21.6	22.9	1.3	5.7
Communications	19.5	16.3	(3.2)	(19.6)
Marketing and promotion	22.2	20.1	(2.1)	(10.4)
Legal and professional	12.6	11.1	(1.5)	(13.5)
Occupancy	6.7	4.2	(2.5)	(59.5)
General and administrative	16.2	11.3	(4.9)	(43.4)
Total indirect expenses	196.5	124.3	(72.2)	(58.1)%
Operating income	17.4	61.1	(43.7)	(71.5)%
Interest and other, net	4.5	1.6	2.9	181.3
Income before income tax provision	21.9	62.7	(40.8)	(65.1)%
Income tax provision	9.4	5.3	(4.1)	(77.4)
Income before continuing operations	12.5	57.4	(44.9)	(78.2)%
Income from discontinued operations	3.8	11.5	(7.7)	(67.0)
Net income	16.3	68.9	(52.6)	(76.3)%
Deemed dividend on convertible preferred shares		(9.6)	9.6	100.0
Net income attributable to common stockholders	\$ 16.3	\$ 59.3	\$ (43.0)	(72.5)%

Highlights

For the year ended December 31, 2005, Archipelago's income from continuing operations decreased to \$12.5 million, a \$44.9 million decline compared to \$57.4 million for the year ended December 31, 2004. Archipelago's operations for the period primarily reflect the following principal factors:

Increased volume and lower trading share. While Archipelago's total volume traded increased 2.9% to 144.3 billion shares for the year ended December 31, 2005 from 140.3 billion shares for the year ended December 31, 2004, its trading share of the total U.S. equity trading volume (Nasdaq-, NYSE- and AMEX-listed securities) declined to 13.8% for 2005 from 14.2% for 2004.

More liquidity posted on ArcaEx. The percentage of customer orders matched internally increased to 88.8% in 2005 from 86.6% in 2004 and therefore reduced the percentage routed to other market centers, resulting in a change in the amount and mix of Archipelago's cost of revenues:

liquidity payments increased to \$206.9 million, or 41.9% of total revenues in 2005, from \$203.5 million, or 41.4% of total revenues in 2004;

routing charges declined to \$66.7 million, or 13.5% of total revenues in 2005, from \$88.7 million, or 18.1% of total revenues in 2004; and

clearance, brokerage and other transaction expenses declined to \$5.9 million, or 1.2% of total revenues in 2005, from \$13.7 million, or 2.8% of total revenues in 2004.

Improved gross margin. Due to these changes in its costs of revenues, Archipelago's gross margin improved by \$28.5 million. As a percentage of total revenues (less Section 31 fees), Archipelago's gross margin increased to 43.4% for the year ended December 31, 2005 from 37.7% for the year ended December 31, 2004, driven by the favorable impacts of (i) Archipelago's higher internal match rate, (ii) a greater contribution of market data fees and (iii) the contribution of the Pacific Exchange following Archipelago's September 2005 acquisition of their operations.

Increased indirect expenses. Despite the improvement in Archipelago's gross margin, Archipelago's operating income declined \$43.7 million, or 71.5%, to \$17.4 million for the year ended December 31, 2005 from \$61.1 million for the year ended December 31, 2004. This was primarily associated with \$46.1 million of expenses incurred in 2005 in connection with Archipelago's merger with NYSE, including legal, banking and regulatory fees, and the acceleration of certain executive compensation associated with the merger. Archipelago did not incur such costs in 2004.

Total U.S. share volume in equity securities (Nasdaq-, NYSE-, and AMEX-listed shares) increased by 5.8% to 1,047.7 billion shares for the year ended December 31, 2005 from 990.5 billion shares for the year ended December 31, 2004. Over the same period, Archipelago's total U.S. market volume increased 2.9% from 140.3 billion shares to 144.3 billion shares. For the year ended December 31, 2005, Archipelago handled 23.0%, 3.6% and 30.0% of the consolidated trading volume in Nasdaq-, NYSE-, and AMEX-listed equities, respectively. This compares to 25.2%, 1.8% and 22.7% for the year ended December 31, 2004.

Revenues

Archipelago's total revenues less Section 31 fees increased by \$2.1 million, or 0.4%, from \$491.3 million for the year ended December 31, 2004 to \$493.4 million for the year ended December 31, 2005.

Transaction fees declined to \$425.0 million for the year ended December 31, 2005 from \$434.5 million for the year ended December 31, 2004, a decrease of \$9.5 million, or 2.2%. Transaction fees in 2004 were made up entirely of revenues generated by Archipelago's ArcaEx Equities segment. For the year ended December 31, 2005, transaction fees were derived from both Archipelago's ArcaEx Equities segment and its ArcaEx Options segment that Archipelago established in the fourth quarter of 2005 with Archipelago's

acquisition of the Pacific Exchange. For the year ended December 31, 2005, transaction fees generated by ArcaEx Equities were \$415.4 million and transaction fees derived from ArcaEx Options were \$9.6 million.

Despite the fact that the total share volume handled on ArcaEx increased during the period, transaction fees generated by ArcaEx Equities decreased \$19.1 million, or 4.4%, \$434.5 million for the year ended December 31, 2004 to \$415.4 million for the year ended December 31, 2005. This primarily resulted from changes in Archipelago's internal match rate and changes in the relative amounts of NYSE-listed, AMEX-listed, and Nasdaq-listed securities Archipelago handled on ArcaEx.

The percentage of customer orders matched internally increased to 88.8% for the year ended December 31, 2005 compared to an internal match rate of 86.6% for the year ended December 31, 2004. Archipelago's transaction fee pricing is structured such that routed shares generate greater gross revenue per share than those matched internally. As the number of shares routed out to other market centers declines relative to the overall share volume, Archipelago's transaction revenue growth trails volume growth. Archipelago's transaction fee pricing is also structured such that trades handled by ArcaEx in NYSE-listed securities are charged lower fees than trades consisting of Nasdaq-listed and AMEX-listed securities. Archipelago's trade mix has changed to include more shares of NYSE-listed securities relative to Archipelago's overall share volume handled. For the year ended December 31, 2005, NYSE-listed securities comprised 13.1% of Archipelago's total share volume handled compared to 6.0% for the year ended December 31, 2004.

Market data fees increased from \$56.4 million for the year ended December 31, 2004 to \$62.0 million for the year ended December 31, 2005, an increase of \$5.6 million, or 9.9%. Market data fees derived from trading Nasdaq-listed securities were unchanged at \$32.4 million. Market data fees derived from trading Amex-listed securities increased to \$24.1 million in 2005 from \$21.8 million in 2004. Market data fees derived from trading NYSE-listed securities increased to \$4.8 million in 2005 from \$2.2 million in 2004. For the year ended December 31, 2005, market data fees generated by ArcaEx Options, which Archipelago acquired in September 2005, were \$0.7 million.

Revenues from listing and other fees increased to \$6.4 million for the year ended December 31, 2005 from \$0.4 million for the year ended December 31, 2004. For the year ended December 31, 2005, ArcaEx Options contributed \$5.9 million to other revenues, including OTP fees, exchange floor-based charges and regulatory fees.

Cost of Revenues

Despite the fact that the trading volume of ArcaEx Equities increased 2.9%, Archipelago's total cost of revenues declined \$26.4 million, or 8.6%, from \$305.9 million for the year ended December 31, 2004 to \$279.5 million for the year ended December 31, 2005. As a percentage of total revenues, Archipelago's cost of revenues declined from 62.3% to 56.6%. This was primarily due to the \$16.8 million of revenues generated by ArcaEx Options, which have minimal associated direct costs. Also, as Archipelago's internal match rate increases, Archipelago's liquidity payments increase and routing charges and clearance, brokerage and other transaction expenses decline. The percentage of customer order volume matched internally on ArcaEx increased to 88.8% (with 11.2% routed to other market centers for execution) for the year ended December 31, 2005 from 86.6% (with 13.4% routed to other market centers for execution) for the year ended December 31, 2004.

Liquidity payments increased to \$206.9 million for the year ended December 31, 2005 from \$203.5 million for the year ended December 31, 2004, an increase of \$3.4 million, or 1.7%. The increase in liquidity payments associated with Archipelago's increased volume and its higher internal match rate was mitigated by a greater contribution of NYSE-listed shares to its total trading volume. Based on its current pricing structure, Archipelago generally does not make liquidity payments for trades in NYSE-listed securities.

Routing charges declined \$22.0 million, or 24.8%, to \$66.7 million for the year ended December 31, 2005 from \$88.7 million for the year ended December 31, 2004. This decline is primarily attributable to Archipelago's increased internal match rate and the resulting reduction in routed volume as well as lower routing costs per share as a result of certain cost management initiatives and changes in trade behavior and product mix. Although Archipelago experienced an increase of 2.9% in its total share volume handled, shares routed out to other market centers declined 13.5% to 28.4 billion shares for the year ended December 31, 2005 compared to 32.8 billion shares for the year ended December 31, 2004.

Clearance, brokerage and other transaction expenses declined from \$13.7 million for the year ended December 31, 2004 to \$5.9 million for the year ended December 31, 2005, a \$7.8 million, or 56.9%, decrease. Clearance, brokerage and other transaction expenses declined primarily due to the decrease in the number of trades subject to clearing costs due to the lower percentage of orders routed out to other market centers and the reduction of Archipelago's clearing costs following the self-clearing of Archipelago's routing broker and introducing broker businesses. Effective in January 2005, Archipelago began to self-clear trades routed by ArcaEx to other market centers for execution. In addition, effective in July 2004, Archipelago began to self-clear trades effected by non-ETP broker-dealer customers accessing ArcaEx through Archipelago's subsidiary, ATS.

Gross Margin

Gross margin increased \$28.5 million, or 15.4%, to \$213.9 million for the year ended December 31, 2005 from \$185.4 million for the year ended December 31, 2004. As a percentage of total revenues, Archipelago's gross margin percentage increased from 37.7% in 2004 to 43.3% in 2005. Archipelago's gross margin improved as a result of reduced clearance, brokerage and other expenses. In addition, the greater contribution of market data fees to total revenues and the addition of revenues generated by ArcaEx Options (following Archipelago's September 2005 acquisition of the Pacific Exchange) had a positive impact on Archipelago's gross margin percentage.

Indirect Expenses

Total indirect expenses increased \$72.2 million, or 58.1%, to \$196.5 million for the year ended December 31, 2005 from \$124.3 million for the year ended December 31, 2004. The increase in Archipelago's indirect expenses was primarily due to the following:

For the year ended December 31, 2005, Archipelago incurred \$46.1 million in NYSE merger costs and related executive compensation, including:

\$28.8 million of compensation expense incurred as a result of the acceleration of certain payments and vesting of restricted stock units to Archipelago's executive officers that would have occurred in 2006 following the termination of employment agreements or change in control severance agreements after the completion of Archipelago's merger with the NYSE or, in the case of one executive, upon the sale of Wave;

\$14.3 million of legal, banking, regulatory and other fees incurred directly in connection with the NYSE merger; and

\$3.0 million of legal fees incurred in litigation regarding the merger with NYSE brought by certain NYSE members.

Archipelago did not incur these costs in 2004.

Other employee compensation and benefits increased by \$13.2 million, or 34.4%, to \$51.6 million from \$38.4 million. The increase was the result of increased staffing and the employee stock-based compensation expense recognized in relation to restricted stock units granted in the 2005. In 2004, long-term incentive compensation consisted of stock options granted at the then estimated fair

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value of Archipelago's stock for which no compensation expense was recognized due to the absence of intrinsic value. In addition, Archipelago incurred \$5.5 million in additional compensation and benefits associated with the employees of ArcaEx Options. Archipelago acquired the operations of ArcaEx Options in September 2005.

Depreciation and amortization declined \$1.3 million, or 5.7%, to \$21.6 million from \$22.9 million. The decrease is primarily associated with accelerated depreciation Archipelago recognized in the first quarter of 2004 in relation to the retirement of its original trading platform in March 2004, which was partially offset by additional depreciation it recognized in connection with capital expenditures it made throughout the year ended December 31, 2005.

Marketing and promotion increased from \$20.1 million to \$22.2 million, a \$2.1 million, or 10.4%, increase. In 2005, Archipelago accentuated Archipelago's brand recognition advertising efforts.

Legal and professional fees increased from \$11.1 million for the year ended December 31, 2004 to \$12.6 million for the year ended December 31, 2005, a \$1.5 million, or 13.5%, increase, including \$0.7 million in additional legal and professional expenses incurred by ArcaEx Options, which Archipelago acquired in September 2005.

Over the same period, communications and occupancy costs increased \$3.2 million and \$2.5 million, respectively. This was mainly the result of incremental expenses incurred in connection with Archipelago's operation of a data center in New Jersey (which Archipelago started building in the fourth quarter of 2004) and the operations of ArcaEx Options, which Archipelago acquired in September 2005.

General and administrative expenses increased \$4.9 million, or 43.4%, to \$16.2 million from \$11.3 million. Insurance premiums and computer maintenance costs increased \$1.7 million and \$1.9 million, respectively, for the year ended December 31, 2005 compared to the year ended December 31, 2004. In addition, for the year ended December 31, 2005, the newly acquired operations of ArcaEx Options added general and administrative expenses in the amount of \$2.2 million.

Interest and Other

Interest and other income and expenses increased \$2.9 million to \$4.5 million for the year ended December 31, 2005. The increase was primarily driven by higher interest rates earned on Archipelago's invested cash balances.

Income Tax Provision

For the year ended December 31, 2005, Archipelago provided for income taxes at a 42.8% blended tax rate. In the 2004 period, for the income earned from the date of Archipelago's conversion to a Delaware corporation through December 31, 2004, Archipelago provided for income taxes at a 41.5% blended tax rate. Prior to that date, Archipelago was treated as a partnership for federal, state and local income tax purposes. As a result, all items of income, expense, gain and loss were generally reportable on the tax returns of Archipelago's members.

Income from Continuing Operations

As a result of the foregoing, Archipelago reported income from continuing operations of \$12.5 million for the year ended December 31, 2005; a decrease of \$44.9 million compared to \$57.4 million income from continuing operations for the year ended December 31, 2004.

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Year Ended December 31, 2004 versus Year Ended December 31, 2003

The following table sets forth Archipelago's consolidated statements of operations data for the periods presented:

	Year ended December 31,		Amount Change	Percentage Change
	2004	2003		
	(in millions)			
Revenues:				
Transaction fees	\$ 434.5	\$ 380.6	\$ 53.9	14.2%
Market data fees	56.4	29.0	27.4	94.5
Listing fees	0.4	0.5	(0.1)	(20.0)
Total revenues	491.3	410.1	81.2	19.8%
Cost of revenues:				
Liquidity payments	203.5	154.2	(49.3)	(32.0)%
Routing charges	88.7	113.8	25.1	22.1
Clearance, brokerage and other transaction expenses	13.7	45.0	31.3	69.6
Total cost of revenues	305.9	313.0	7.1	2.3%
Gross margin	185.4	97.1	88.3	90.9%
Indirect expenses:				
Other employee compensation and benefits	38.4	36.1	(2.3)	(6.4)%
Depreciation and amortization	22.9	25.9	3.0	11.6
Communications	16.3	18.3	2.0	10.9
Marketing and promotion	20.1	8.1	(12.0)	(148.1)
Legal and professional	11.1	8.3	(2.8)	(33.7)
Occupancy	4.2	4.0	(0.2)	(5.0)
General and administrative	11.3	9.9	(1.4)	(14.1)
Total indirect expenses	124.3	110.6	(13.7)	(12.4)%
Operating income (loss)	61.1	(13.5)	74.6	(552.6)%
Interest and other, net	1.6	0.6	1.0	166.7
Income (loss) before income tax provision	62.7	(12.9)	75.6	(586.0)%
Income tax provision	5.3		(5.3)	(100.0)
Income (loss) before continuing operations	57.4	(12.9)	70.3	(545.0)%
Income from discontinued operations	11.5	14.7	(3.2)	(21.8)
Net income	68.9	1.8	67.1	3,727.8%
Deemed dividend on convertible preferred shares	(9.6)		(9.6)	(100.0)
Net income attributable to common stockholders	\$ 59.3	\$ 1.8	\$ 57.5	3,194.4%

Highlights

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For the year ended December 31, 2004, Archipelago's income from continuing operations increased to \$57.4 million, a \$70.3 million improvement compared to the year ended December 31, 2003. Archipelago's improved results of operations for the period primarily reflect the following principal factors:

Increased volume and trading share. While total U.S. market volumes increased 6.9% to 990.5 billion shares traded, Archipelago's total volume traded increased 20.1%, to 140.3 billion

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shares traded. This increased its share of the trading volume of the total U.S. listed-equity market from 12.6% for 2003 to 14.2% for 2004.

More liquidity posted on ArcaEx. The percentage of customer orders matched internally increased from 80.6% in 2003 to 86.6% in 2004 and therefore reduced the percentage routed to other market centers, resulting in a change in the amount and mix of Archipelago's cost of revenues:

liquidity payments increased to \$203.5 million, or 41.4% of total revenues in 2004, from \$154.2 million, or 37.6% of total revenues in 2003;

routing charges declined to \$88.7 million, or 18.1% of total revenues in 2004, from \$113.8 million, or 27.7% of total revenues in 2003; and

clearance, brokerage and other transaction expenses declined to \$13.7 million, or 2.8% of total revenues in 2004, from \$45.0 million, or 11.0% of total revenues in 2003.

Improved gross margin. Due to these changes in Archipelago's cost of revenues and a greater contribution of market data fees to Archipelago's total revenues, its gross margin improved by \$88.3 million and gross margin as a percentage of total revenues increased from 23.7% for the year ended December 31, 2003 to 37.7% for the year ended December 31, 2004.

Fully-operational ArcaEx. Archipelago realized the benefits of operating ArcaEx as a facility of PCX Equities rather than as an ECN effective April 11, 2003, including increased market data revenues and reduced clearing costs.

Continued reduction of clearing expenses. Archipelago reduced clearing costs per trade as a result of both the renegotiation of existing clearing agreements and the transition to self-clearing transactions effected by broker-dealers accessing ArcaEx through Archipelago's subsidiary, ATS.

Total U.S. market volumes in Nasdaq-, NYSE-, and AMEX-listed securities increased by 6.9% from 926.5 billion shares for the year ended December 31, 2003 to 990.5 billion shares for the year ended December 31, 2004. Over the same period, Archipelago's total U.S. market volume increased 20.1% from 116.8 billion shares to 140.3 billion shares. For the year ended December 31, 2004, Archipelago handled 25.3%, 1.8%, and 22.7% of the total trading volume in Nasdaq-, NYSE-, and AMEX-listed equities, respectively, compared to 24.6%, 1.1%, and 12.2% for the year ended December 31, 2003.

Revenues

Archipelago's total revenues increased \$81.2 million, or 19.8%, from \$410.1 million for the year ended December 31, 2003 to \$491.3 million for the year ended December 31, 2004. This growth in its total revenues was primarily driven by:

a \$53.9 million, or 14.2%, increase in transaction fees, reflecting both industry-wide volume growth and Archipelago's expanded trading share, and

a \$27.4 million, or 94.5%, increase in market data fees, reflecting Archipelago's transition to the ArcaEx platform in April 2003, increased trading volume, and an increase in customer orders matched internally, for which Archipelago receives market data revenues.

Transaction fees increased from \$380.6 million for the year ended December 31, 2003 to \$434.5 million for the year ended December 31, 2004. The increase was driven by the 20.1% increase Archipelago experienced in transaction volumes and was partially offset by the increase in the percentage of customer shares matched internally.

Market data fees increased from \$29.0 million for the year ended December 31, 2003 to \$56.4 million for the year ended December 31, 2004, an increase of \$27.4 million, or 94.5%. Market data fees derived from trading Nasdaq-listed securities increased from \$19.0 million in 2003 to \$32.4 million in 2004. Market

data fees derived from trading Amex-listed securities increased from \$9.3 million in 2003 to \$21.8 million in 2004. Market data fees derived from trading NYSE-listed securities increased from \$0.7 million in 2003 to \$2.2 million in 2004. For the year ended December 31, 2004, Archipelago benefited fully from the improved economics of operating ArcaEx as a facility of PCX Equities.

Revenues from listing fees decreased from \$0.5 million for the year ended December 31, 2003 to \$0.4 million for the year ended December 31, 2004.

Cost of Revenues

Archipelago's total cost of revenues declined from \$313.0 million for the year ended December 31, 2003 to \$305.9 million for the year ended December 31, 2004. As a percentage of total revenues, Archipelago's cost of revenues declined from 76.3% to 62.3%. As Archipelago's internal match rate increases, its liquidity payments increase and routing charges and clearance, brokerage and other transaction expenses decline. The percentage of customer order volume matched internally on ArcaEx increased from 80.6% (with 19.4% routed to other market centers for execution) for the year ended December 31, 2003 to 86.6% (with 13.4% routed to other market centers for execution) for the year ended December 31, 2004.

Liquidity payments increased by \$49.3 million, or 32.0%, from \$154.2 million for the year ended December 31, 2003 to \$203.5 million for the year ended December 31, 2004. Archipelago's increased liquidity payments primarily reflect an increase in the percentage of customer order volume matched internally on ArcaEx and the larger transaction volumes Archipelago achieved in 2004 compared to 2003.

Routing charges declined \$25.1 million, or 22.1%, from \$113.8 million for the year ended December 31, 2003 to \$88.7 million for the year ended December 31, 2004. This decline primarily reflects an increase in the percentage of customer order volume matched internally, partially offset by increased trading volume year-over-year.

Clearance, brokerage and other transaction expenses declined \$31.3 million, or 69.6%, from \$45.0 million for the year ended December 31, 2003 to \$13.7 million for the year ended December 31, 2004. This decline was the result of reduced clearing costs per trade that became effective in November 2003, the migration of trading from the Archipelago ECN to ArcaEx as a facility of PCX Equities in April 2003 (as a result of which Archipelago did not incur clearing charges for trades executed internally), and a decrease in the relative number of trades subject to clearing costs due to the lower percentage of orders routed out. In addition, effective in July 2004, Archipelago began to self-clear trades effected by non-ETP broker-dealer customers accessing ArcaEx through Archipelago's subsidiary, ATS, which contributed to the reduction of Archipelago's clearing costs.

Clearance, brokerage and other transaction expenses for the year ended December 31, 2003 included the following:

\$4.5 million in costs related to fees charged by Spear, Leeds & Kellogg L.P., a subsidiary of The Goldman Sachs Group, Inc., under Archipelago's service bureau agreement with them for the development, operation, management and support services provided to the REDIBook ECN in connection with the integration of the REDIBook ECN into the Archipelago system. Archipelago did not incur these charges in 2004 due to the migration of trading of Nasdaq-listed securities from the Archipelago ECN to ArcaEx in April 2003.

\$7.0 million of bad debt expense for accounts receivable balances that Archipelago deemed uncollectible. For the year ended December 31, 2004, Archipelago took back into income approximately \$0.9 million as a result of improved collections, which provided for a \$7.9 million decrease of clearing, brokerage and other transaction expenses year-over-year.

Gross Margin

Gross margin increased \$88.3 million, or 90.9%, from \$97.1 million for the year ended December 31, 2003 to \$185.4 million for the year ended December 31, 2004. Archipelago's gross margin as a percentage of total revenues increased from 23.7% in 2003 to 37.7% in 2004. The improved gross margin was primarily the result of reduced clearance, brokerage and other expenses. These costs declined by \$31.3 million, notwithstanding the fact that transaction volumes increased by 20.1%. Additionally, market data revenues increased from 7.1% of total revenues for the year ended December 31, 2003 to 11.5% for the year ended December 31, 2004, which also contributed to Archipelago's gross margin improvement since there are no direct costs associated with market data revenues. Archipelago's combined liquidity and routing expenses declined as a percentage of its total revenues to 59.5% from 65.3%.

Indirect Expenses

Total indirect expenses increased \$72.2 million, or 58.1%, to \$196.5 million for the year ended December 31, 2005 from \$124.3 million for the year ended December 31, 2004. The increase in Archipelago's indirect expenses was primarily due to the following:

For the year ended December 31, 2005, Archipelago incurred \$46.1 million in NYSE merger costs and related executive compensation. See "Management's Discussion and Analysis of Financial Condition and Results of Operations of Archipelago Liquidity and Capital Resources."

Other employee compensation and benefits increased \$2.3 million, or 6.4%, to \$38.4 million from \$36.1 million primarily as a result of increased staffing.

Depreciation and amortization declined \$3.0 million, or 11.6%, to \$22.9 million from \$25.9 million. The decrease was primarily associated with the accelerated depreciation Archipelago recognized for the period from June 2003 to March 2004 in relation to the retirement of its original trading platform. This was partially offset by additional depreciation Archipelago recognized in connection with capital expenditures Archipelago made throughout the year ended December 31, 2004.

Marketing and promotion increased \$12.0 million to \$20.1 million from \$8.1 million primarily as a result of the brand recognition advertising campaign Archipelago launched in September 2004.

Legal and professional fees increased \$2.8 million, or 33.7%, to \$11.1 million from \$8.3 million in relation to additional expenses incurred as a public company, including increased board of directors and audit fees.

General and administrative expenses increased \$1.4 million, or 14.1%, to \$11.3 million from \$9.9 million also in relation to additional expenses incurred as a public company, including directors and officers' insurance premiums. This was partially offset by reduced computer lease expenses.

Interest and Other

Interest and other income and expenses increased \$1.0 million to \$1.6 million for the year ended December 31, 2004 compared to \$0.6 million for the year ended December 31, 2003. This was due to increased average cash and cash equivalent balances and higher interest rates earned on those balances.

Income Tax Provision

For the income earned from the date of Archipelago's conversion to a Delaware corporation through December 31, 2004, Archipelago provided for income taxes at a 41.5% blended tax rate. In 2003, Archipelago was treated as a partnership for federal, state and local income tax purposes. As a result, all items of income, expense, gain and loss were generally reportable on the tax returns of Archipelago's members.

Income (Loss) from Continuing Operations

As a result of the foregoing, Archipelago reported income from continuing operations of \$57.4 million for the year ended December 31, 2004; an increase of \$70.3 million compared to the loss from continuing operations of \$12.9 million for the year ended December 31, 2003.

Deemed Dividend on Convertible Preferred Shares

Upon the conversion of redeemable preferred shares into shares of common stock in connection with of Archipelago's IPO, Archipelago issued approximately 717,000 additional shares of common stock attributable to a beneficial conversion feature included in the previously issued redeemable preferred interest. The \$9.6 million intrinsic value of such shares was a deemed dividend on convertible preferred shares, which was reported after net income to reach net income attributable to common stockholders.

Net Income Attributable to Common Stockholders

Archipelago reported net income attributable to common stockholders of \$59.3 million for the year ended December 31, 2004; an increase of \$57.5 million compared to net income of \$1.8 million for the year ended December 31, 2003.

Liquidity and Capital Resources

Historically, Archipelago's primary sources of liquidity were cash provided by operations and proceeds generated from the sale of its common equity and preferred shares. On August 19, 2004, Archipelago completed the sale of 6,325,000 shares of common stock at \$11.50 per share in its IPO, for which it received net proceeds of \$67.6 million. Archipelago incurred approximately \$6.8 million in expenses related to its IPO. Certain former members of Archipelago Holdings LLC sold another 6,325,000 million shares to the public, for which Archipelago received no proceeds.

On September 26, 2005, Archipelago completed the acquisition of PCX Holdings and its subsidiaries for a total purchase price of approximately \$94.0 million consisting of a \$90.9 million cash payment to PCX Holdings stockholders and certain PCX Holdings employees, and direct costs of acquisition of \$3.1 million. The \$90.9 million cash payment represented the total dollar value of 1,645,415 shares of Archipelago common stock held by PCX Holdings at the time of the closing, or \$66.3 million, plus \$24.6 million.

In connection with its merger with NYSE, at closing, Archipelago maintained a minimum \$120.0 million net cash balance, as defined. For the year ended December 31, 2005, Archipelago incurred \$46.1 million in NYSE merger costs and related executive compensation, including (i) \$28.8 million of compensation expense (\$21.3 million in cash and \$7.5 million as a non-cash charge) incurred as a result of the acceleration of certain payments and vesting of restricted stock units to Archipelago's executive officers that would have occurred in 2006 following the termination of employment agreements or change

in control severance agreements after the completion of Archipelago's merger with the NYSE or, in the case of one executive, upon the sale of Wave, (ii) \$14.3 million of legal, banking, regulatory and other fees incurred directly in connection with the NYSE merger, and (iii) \$3.0 million of legal fees incurred in connection with litigation matters related to the merger of the NYSE and Archipelago brought by certain NYSE members.

Archipelago's principal liquidity requirements have historically been for working capital, capital expenditures and general corporate purposes. Archipelago's capital expenditures have historically related primarily to developing its trading platforms, which included investments in software development and hardware, as well as building its data centers.

As of December 31, 2005, Archipelago had \$145.3 million of cash and cash equivalents (including cash from discontinued operations of \$11.0 million). For the year ended December, 2005, Archipelago provided cash of \$91.5 million from the operating activities of its continuing operations, consisting of income from continuing operations of \$12.5 million and the \$79.0 million net effect of non-cash items and changes in its working capital. Archipelago used \$118.4 million in investing activities of its continuing operations to acquire PCX Holdings and its subsidiaries and to purchase fixed assets and develop software. In addition, Archipelago's continuing operations provided cash from financing activities of \$16.0 million primarily in relation to a \$24.0 million capital contribution from the discontinued operations of Wave, which was partially offset by \$7.8 million Archipelago spent repurchasing shares of its common stock.

Archipelago's broker-dealer subsidiaries are subject to regulatory requirements intended to ensure their respective general financial soundness and liquidity, which require that they comply with certain minimum capital requirements. These regulations, which differ in the United States, the United Kingdom and Canada the three countries in which Archipelago's broker-dealer subsidiaries do business generally prohibit a broker-dealer subsidiary from repaying borrowings from Archipelago or its affiliates, paying cash dividends, making loans to Archipelago or its affiliates or otherwise entering into transactions that would result in a significant reduction in its regulatory net capital position without prior notification or approval of its principal regulator. Archipelago's capital structure was designed to provide each of its subsidiaries with capital and liquidity consistent with its business and regulatory requirements.

Summary Disclosures About Contractual Obligations and Off-Balance Sheet Arrangements

Contractual Obligations

As of December 31, 2005, Archipelago's contractual cash obligations and other commercial commitments consisted of the following:

	Payments due by year					
	Total	2006	2007	2008	2009	Thereafter
	(in thousands)					
Lease obligations	\$ 43,207	\$ 9,352	\$ 8,093	\$ 7,016	\$ 4,967	\$ 13,779
Purchase obligations	4,800	4,800				
Total	\$ 48,007	\$ 14,152	\$ 8,093	\$ 7,016	\$ 4,967	\$ 13,779

Off-Balance Sheet Arrangements

In November 2004, pursuant to a lease agreement, Archipelago applied for a \$1.2 million irrevocable standby letter of credit, which has periodic reductions to the amount required to be maintained until expiration in July 2015. In connection with this letter of credit, Archipelago entered into a compensating balance agreement with its bank for one and one-half times the amount of the letter of credit. The beneficiary of this letter of credit is the landlord of certain office space leased by Archipelago in New York.

Critical Accounting Policies

Archipelago management's discussion and analysis of Archipelago's financial condition and results of operations is based on its financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements required Archipelago to make estimates and judgments that affect the reported amounts of assets, liabilities and expenses. Archipelago historically reviewed its estimates on an on-going basis. Archipelago based its estimates on historical experience and on various other assumptions that it believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. While Archipelago's significant accounting policies are described in more detail in the notes to its financial statements, Archipelago believes the following accounting policies to be critical to the judgments and estimates used in the preparation of its financial statements.

Revenue Recognition

Archipelago recognized revenue in the form of transaction fees paid by customers for trade execution on the Archipelago system, whether the trade is executed internally or routed out to an external market center. Archipelago also simultaneously recognized an expense, in the form of either a liquidity payment or a routing charge, paid to the liquidity provider or the external market center, as the case may be. Archipelago recognized these fees and expenses on a gross basis in its consolidated financial statements in accordance with Emerging Issues Task Force ("EITF") Issue No. 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent". Archipelago's application of EITF Issue No. 99-19 included an evaluation of a number of factors deemed relevant by management in making its determination with respect to gross versus net reporting of revenue.

Archipelago also earned market data fees from the sale of market data, and in turn rebated a portion of those fees to Archipelago's customers. In accordance with EITF Issue No. 99-19, Archipelago recognized these fees as revenue net of the rebates provided to its customers in its consolidated financial statements. Archipelago estimated the market data fees it earned each quarter based on the number of transactions executed on the Archipelago system in that quarter that qualify for payment under the various market data plans.

Archipelago's listing fees consisted of original listing fees, fees payable in connection with the listing of additional shares of equity securities and annual listing fees. Archipelago recognized annual listing fees ratably over the following twelve-month period. Archipelago recognized initial listing fees and additional share listing fees over five-year estimated service periods.

Archipelago's other revenues primarily consisted of regulatory and registration fees including agent annual registration and new application and transfer fees from parties that have equities or options trading privileges on the Pacific Exchange. Regulatory and registration fees were billed and collected by the National Association of Securities Dealers (the "NASD"). The registration fee was billed annually in advance and remitted to Archipelago before the start of the effective year. Archipelago recognized the annual registration fee ratably over the related twelve-month period. New registration and transfer application fees were remitted monthly to Archipelago and recognized in the year received.

Archipelago paid SEC fees pursuant to Section 31 of the Securities Exchange Act of 1934. These fees were designed to recover costs incurred by the government for the supervision and regulation of securities markets and securities professionals. Archipelago, in turn, collected activity assessment fees from ETP and OTP holders trading on ArcaEx and the Pacific Exchange, respectively, and paid Section 31 fees to the SEC based on fee schedules determined by the SEC. Fees received were included in cash and cash equivalents at the time of receipt, and, as required by law, the amount due to the SEC was recorded as an accrued liability and remitted semiannually.

Following the September 26, 2005 acquisition of PCX Holdings, Archipelago recorded activity assessment fee revenue and Section 31 fees expense gross on its consolidated statement of operations as Archipelago bore the credit risk associated with the collection of these fees, while maintaining similar treatment within the consolidated statement of financial condition.

Goodwill and Indefinite-Lived Intangible Assets

As of December 31, 2005, Archipelago had approximately \$240.6 million in goodwill and intangible assets. Under SFAS No. 142, "Goodwill and Other Intangible Assets", management was required to perform a detailed review at least annually of the carrying value of Archipelago's intangible assets, which included goodwill and Archipelago's national securities exchange registration. In this process, management was required to make estimates and assumptions in order to determine the fair value of Archipelago's assets and liabilities and projected future earnings using various valuation techniques, including a discounted cash flow model. Management used its best judgment and information available to it at the time to perform this review, as well as the services of an expert valuation specialist. Because management's assumptions and estimates were used in the valuation, actual results may differ. If management determines that the fair value of the intangible assets is less than their carrying value, an impairment loss would be recognized in an amount equal to the difference between the fair value and the carrying value.

Provision for Doubtful Accounts

Archipelago evaluated the collectibility of accounts receivable based on the financial condition of its customers, the length of time a receivable was past due, its historical experience with the particular customer and the likelihood of projected payments. If Archipelago knew of a customer's inability to meet its financial obligations, it recorded a specific provision for doubtful accounts for estimated losses resulting from the inability of that customer to make payments. The amount of the provision was then charged against the amounts due to reduce the receivable to the amount Archipelago reasonably believes would be collected. Due to changing economic, business and market conditions, Archipelago reviewed the provision monthly and made changes to the provision as appropriate.

Stock-Based Compensation

Archipelago elected to follow APB No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for its employee stock options. Under APB No. 25, Archipelago recorded compensation expense equal to the difference between the exercise price of the stock option and the fair market value of the underlying stock as of the measurement date. For disclosure purposes only, Archipelago also estimated the impact on its net income of applying the fair value method of measuring compensation cost on stock options with the fair value determined under the minimum value method as provided by SFAS No. 123, "Accounting for Stock-Based Compensation" as amended by SFAS No. 148, "Accounting for Stock-Based Compensation Transition and Disclosure."

In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123(R) (revised 2004), "Share-Based Payment," requiring that compensation cost associated with share-based payment transactions be recognized in financial statements. Statement No. 123(R) replaces the former SFAS No. 123 and supersedes APB No. 25. Archipelago adopted SFAS No. 123(R) on January 1, 2006 using the modified-prospective method. For the year ending December 31, 2006, management anticipates that Archipelago will recognize a pre-tax expense of approximately \$2.0 million in connection with share-based payment transactions recorded under SFAS No. 123(R).

Related Party Transactions

Archipelago has entered into significant transactions with its affiliates in the normal course of business. In the opinion of management, transactions and agreements with affiliates are made at prevailing

market rates, terms and conditions, and do not involve more than the normal risk of collectibility or present other unfavorable features. For a discussion of transactions with Archipelago's affiliates, see Archipelago's Consolidated Financial Statements and Note 10 thereto included elsewhere in this prospectus.

Software Development

Archipelago accounts for software development costs under SOP 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use", and other related guidance. Archipelago expenses software development costs incurred during the preliminary project stage, while it capitalizes costs incurred during the application development stage, which includes design, coding, installation and testing activities. Amortization of capitalized software development costs is computed on a straight-line basis over the software's estimated useful life, generally three years.

Income Taxes

The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in an entity's financial statements or tax returns. Significant judgment is required in assessing the future tax consequences of events that have been recognized in Archipelago's financial statements or tax returns. Fluctuations in the actual outcome of these future tax consequences could have a material impact on Archipelago's financial position or results of operations.

Other Significant Accounting Policies

Other significant accounting policies not involving the same level of measurement uncertainties as those described above are nevertheless important to an understanding of Archipelago's consolidated financial statements. Policies related to certain accounting policies require difficult judgments on complex matters that are often subject to multiple sources of authoritative guidance. For a discussion of Archipelago's other significant accounting policies, see Archipelago's Consolidated Financial Statements and Note 2 thereto included elsewhere in this prospectus.

Controls and Procedures

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

As of December 31, 2005, an evaluation was carried out under the supervision and with the participation of Archipelago's management, including Archipelago's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Archipelago's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act). Based upon that evaluation, Archipelago's Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2005, these disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

No material changes occurred in Archipelago's internal controls over financial reporting (as defined in Rule 13a under the Exchange Act) or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

Management's Report on Internal Control Over Financial Reporting

The management of Archipelago was responsible for establishing and maintaining adequate internal control over financial reporting of Archipelago. Archipelago's internal control over financial reporting was a process designed under the supervision of Archipelago's chief executive and chief financial officers to

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provide reasonable assurance regarding the reliability of financial reporting and the preparation of Archipelago's financial statements for external reporting purposes in accordance with United States generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of the effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies and procedures may deteriorate.

Management assessed the effectiveness of Archipelago's internal control over financial reporting as of December 31, 2005, based on criteria set forth in the framework in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). This evaluation included review of the documentation of controls, evaluation of the design effectiveness of controls, testing of the operating effectiveness of controls and a conclusion on this evaluation. Although there are inherent limitations in the effectiveness of any system of internal control over financial reporting, based on Archipelago assessment, management concluded that Archipelago maintained effective internal control over financial reporting as of December 31, 2005.

Management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of PCX Holdings and its subsidiaries, which are included in the consolidated financial statements of Archipelago as of and for the year December 31, 2005. PCX Holdings constituted \$115.3 million and \$30.9 million of total assets and net assets, respectively, as of December 31, 2005, and \$16.8 million and \$4.5 million of total revenues and operating income, respectively, for the year then ended. Archipelago's management did not assess the effectiveness of internal controls over financial reporting of PCX Holdings because Archipelago did not complete its acquisition of PCX Holdings until September 26, 2005.

Archipelago's management assessment of the effectiveness of its internal control over financial reporting as of December 31, 2005 has been audited by Ernst & Young, LLP, an independent registered public accounting firm, as stated in their report which is included elsewhere in this prospectus.

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL DATA FOR NYSE GROUP

The following unaudited pro forma condensed combined financial data and explanatory notes present how the consolidated financial statements of NYSE Group may have appeared had Archipelago, PCX Holdings and the NYSE actually been combined at earlier dates. The unaudited pro forma condensed combined financial data shows the impact of the combinations on the companies' respective historical financial positions and results of operations under the purchase method of accounting with Archipelago treated as the acquiror of PCX Holdings and the NYSE treated as the acquiror of Archipelago, and as if the acquisition of PCX Holdings by Archipelago and the acquisition of Archipelago by the NYSE had been completed on January 1, 2005 for statement of income purposes and on December 31, 2005 for statement of financial condition purposes.

On September 26, 2005, Archipelago completed the acquisition of PCX Holdings for a total purchase price of approximately \$94.0 million consisting of a \$90.9 million cash payment to PCX Holdings stockholders and certain PCX Holdings employees, and approximately \$3.1 million of direct costs incurred by Archipelago as part of this acquisition. The \$90.9 million cash payment represented the total dollar value of 1,645,415 shares of Archipelago common stock held by the Pacific Exchange at the time of the closing, or \$66.3 million (calculated based on the average closing price of Archipelago's stock price on NYSE Arca (formerly known as ArcaEx) for the ten trading days prior to the acquisition of PCX Holdings), plus \$24.6 million.

In the merger of the NYSE and Archipelago, a wholly owned subsidiary of NYSE Group merged with and into Archipelago, and Archipelago common stockholders had the right to receive one share of NYSE Group common stock for each share of Archipelago common stock that they owned. In addition, a successor of the NYSE merged with and into a wholly owned subsidiary of NYSE Group, and the NYSE members had the right to receive \$300,000 in cash and 80,177 shares NYSE Group common stock. In the merger, the NYSE members had the opportunity to make the cash election to increase the cash portion (and decrease the stock portion) of their consideration, or a stock election to increase the stock portion (and decrease the cash portion) of their consideration. These elections, however, were subject to proration so that the total cash consideration paid to NYSE members in the merger did not exceed, in the aggregate, \$409.8 million. Restricted stock units and stock options of Archipelago common stock at the effective time of the merger were converted into restricted stock units and stock options of our common stock on a one-for-one basis.

For accounting purposes, the acquisition of PCX Holdings by Archipelago is treated under the purchase method of accounting and PCX Holdings' assets acquired and liabilities assumed were recorded at their estimated fair value. The NYSE and Archipelago merger and related transactions will also be treated under the purchase method of accounting for accounting purposes, and Archipelago's assets acquired and liabilities assumed will be recorded at their fair value.

The fair value of NYSE Group common stock issued to Archipelago stockholders in the merger is the purchase consideration in the merger. For purposes of the pro forma condensed combined financial data, we have assumed that the stock price of Archipelago is \$22.43 per share (based on the average closing stock price for the five-day period beginning two days before and ending two days after April 20, 2005, the date the merger was agreed to and announced) and that 47,838,000 shares of Archipelago common stock were outstanding at the date of the completion of the merger (including 49,640,000 shares issued less approximately 1,802,000 shares held in treasury). The closing price of Archipelago common stock on March 7, 2006, the date of the completion of the NYSE and Archipelago merger, was \$64.25 per share.

The allocations of the respective purchase price to PCX Holdings and Archipelago's assets, including intangible assets, and liabilities are only preliminary allocations based on estimates of fair values and will change when estimates are finalized. Among the provisions of Statement of Financial Accounting Standards No. 141, "Business Combinations," criteria have been established for determining whether intangible assets should be recognized separately from goodwill. Statement of Financial Accounting

Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142") provides, among other guidelines, that goodwill and intangible assets with indefinite lives will not be amortized, but rather are tested for impairment on at least an annual basis.

The unaudited pro forma condensed combined statements of income do not include any potential revenue and cost synergies.

The unaudited pro forma condensed combined statement of financial condition as of December 31, 2005 combines the December 31, 2005 historical statement of financial condition of the NYSE and the December 31, 2005 historical statement of financial condition of Archipelago and assumes that the merger of NYSE and Archipelago took place on that date. The unaudited pro forma condensed combined statement of operations for the fiscal year ended December 31, 2005 assumes that both business combinations took place on January 1, 2005. The fiscal years of the NYSE, Archipelago and PCX Holdings end on December 31. Therefore, the accompanying unaudited pro forma condensed combined statement of operations for the year ended December 31, 2005 combines the historical statements of operations of NYSE, Archipelago and PCX Holdings for the fiscal year ended December 31, 2005. Reclassifications have been made to the historical financial statements of NYSE, Archipelago and PCX Holdings to conform to the presentation used by NYSE Group.

The pro forma condensed combined financial data shown under this heading is unaudited, is presented for informational purposes only, and is not necessarily indicative of the financial position or results of operations that would actually have occurred had the acquisition of PCX Holdings by Archipelago and the merger of NYSE and Archipelago been consummated as of the dates or at the beginning of the periods presented, nor is it necessarily indicative of future operating results or financial position. The unaudited pro forma condensed combined financial data shown under this heading and the accompanying notes should be read together with:

the accompanying notes to the unaudited pro forma condensed combined financial data;

the separate audited historical financial statements of NYSE as of and for the fiscal year ended December 31, 2005 included elsewhere in this document; and

the separate audited historical financial statements of Archipelago as of and for the fiscal year ended December 31, 2005 included elsewhere in this document.

NYSE GROUP, INC.
UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT
OF FINANCIAL CONDITION

AS OF DECEMBER 31, 2005

(In thousands)

	Historical		Pro Forma		
	Archipelago	NYSE	Adjustments	Note	NYSE Group Combined
Assets					
Current assets:					
Cash and cash equivalents	\$ 134,358	\$ 43,492	\$ (506,200)	[3.7]	\$ (328,350)
Investment and other securities		1,108,479			1,108,479
Receivables, net	97,944	184,185			282,129
Deferred income taxes	5,787	91,919			97,706
Other current assets	7,976	36,142			44,118
Total current assets	246,065	1,464,217	(506,200)		1,204,082
Property and equipment, net	67,091	343,534	17,950	[3.6]	428,575
Goodwill	131,865		403,703	[2]	535,568
Intangible assets, net	108,753		454,647	[3.6]	563,400
Deferred income taxes	11,863	290,145			302,008
Other assets	14,157	106,249			120,406
Total assets	\$ 579,794	\$ 2,204,145	\$ 370,100		\$ 3,154,039
Liabilities and Equity					
Current liabilities:					
Payables and accrued expenses	\$ 72,727	\$ 341,886			\$ 414,613
Section 31 fees payable	57,032	232,146			289,178
Deferred revenue	8,117	85,690			93,807
Deferred income taxes		25,238			25,238
Total current liabilities	137,876	684,960			822,836
Accrued employee benefits		323,373			323,373
Deferred revenue		329,197			329,197
Deferred income taxes	10,312	9,289	225,449	[3.4]	245,050
Other liabilities	9,457	23,037			32,494
Total liabilities	157,645	1,369,856	225,449		1,752,950
Minority interest		35,164			35,164
Equity	422,149	799,125	144,651	[3.7]	1,365,925
Total liabilities and equity	\$ 370,100	\$ 2,204,145	\$ 370,100		\$ 3,154,039

The accompanying notes are an integral part of the
unaudited pro forma condensed combined financial statements.

NYSE GROUP, INC.
UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF INCOME

YEAR ENDED DECEMBER 31, 2005

(In thousands, except per share data)

	Historical		Pro Forma		Historical		Pro Forma		
	Archipelago	PCX Holdings	Adjustments	Note	Archipelago & PCX Holdings Combined	NYSE	Adjustments	Note	NYSE Group Combined
Revenues									
Transaction fees	\$ 424,981	\$ 30,306			\$ 455,287	\$ 145,828			\$ 601,115
Listing fees	494				494	342,718			343,212
Market data fees	61,996	2,534			64,530	178,169			242,699
Data processing fees						182,935			182,935
Archipelago revenue:									
Original consideration amortization		10,215	(10,215)	[3.1]					
Regulatory oversight		6,022	(6,022)	[3.2]					
Registered representative fees		(3,826)	3,826	[3.3]					
Regulatory fees						129,755			129,755
Other	10,141	13,458			23,599	143,689			167,288
Total revenues	497,612	58,709	(12,411)		543,910	1,123,094			1,667,004
Expenses									
Merger expenses and related executive compensation and exit costs	46,127				46,127	26,128	(72,255)	[3.8]	
Other employee compensation and benefits	51,552	22,443			73,995	509,757			583,752
Liquidity payments	206,907				206,907				206,907
Routing and clearing fees	72,585			[3.2],	70,389				70,389
Systems and communications	19,512	5,209	(2,196)	[3.3]	24,721	124,128			148,849
Professional services	12,623	3,116			15,739	127,676			143,415
Depreciation and amortization	21,631	10,018			31,649	103,430	7,730	[3.6]	142,809
Occupancy	6,708	3,690			10,398	70,600			80,998
Selling, general and administrative	38,112	6,483			44,595	69,711			114,306
Total expenses	475,757	50,959	(2,196)		524,520	1,031,430	(64,525)		1,491,425
Income (loss) before income tax provision (benefit) and minority interest	21,855	7,750	(10,215)		19,390	91,664	64,525		175,579
Income tax provision (benefit)	9,349	3,600	(4,086)	[3.4]	8,863	48,943	25,810	[3.4]	83,616
Minority interest						1,972			1,972
Income (loss) from continuing operations	\$ 12,506	\$ 4,150	\$ (6,129)		\$ 10,527	\$ 40,749	\$ 38,715		\$ 89,991
Basic earnings per share from continuing operations	\$ 0.27				\$ 0.23				\$ 0.59
Diluted earnings per share from continuing operations	\$ 0.26				\$ 0.23				\$ 0.58
Basic weighted average shares outstanding	46,806		(1,234)	[3.5]	45,572		106,335	[3.9]	151,907

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	Historical	Pro Forma	Historical	Pro Forma
Diluted weighted average shares outstanding	47,821	(1,234) [3.5]	46,587	108,704 [3.9]

The accompanying notes are an integral part of the unaudited pro forma condensed combined financial statements.

NYSE GROUP, INC.
NOTES TO UNAUDITED PRO FORMA CONDENSED
COMBINED FINANCIAL STATEMENTS

Note 1 Basis of Presentation

The unaudited pro forma condensed combined financial statements give effect to the following:

the acquisition of PCX Holdings by Archipelago and the merger of the NYSE and Archipelago in two separate transactions to be accounted for as purchase business combinations,

Archipelago treated as the legal and accounting acquirer of PCX Holdings,

the NYSE treated as the legal and accounting acquirer of Archipelago,

the acquisitions of PCX Holdings by Archipelago and Archipelago by the NYSE as if both had been completed on January 1, 2005 for statement of income purposes, and

the acquisition of Archipelago by the NYSE as if it had been completed on December 31, 2005 for statement of financial condition purposes.

On September 26, 2005, Archipelago completed the acquisition of PCX Holdings. Based on the preliminary allocation of the purchase price in the PCX Holdings acquisition, the assets and liabilities of PCX Holdings were included in Archipelago's historical consolidated statement of financial condition as of December 31, 2005. The results of operations of PCX Holdings have been included in Archipelago's historical results of operations since October 1, 2005.

The unaudited pro forma condensed combined financial data is presented for illustrative purposes only and is not necessarily indicative of the operating results or financial position that would have occurred if the business combinations had been consummated during the period or as of the dates for which the pro forma data is presented, nor is it necessarily indicative of the future operating results or financial position of the NYSE Group.

NYSE's purchase price for Archipelago has been allocated to the assets acquired and the liabilities assumed based upon management's preliminary estimate of their respective fair values as of the date of acquisition. Definitive allocations will be performed when estimates are finalized. Accordingly, the purchase price allocation pro forma adjustments are preliminary, have been made solely for the purpose of providing unaudited pro forma condensed combined financial data and are subject to revision based on a final determination of fair value after the closing of the business combination.

The accompanying unaudited pro forma condensed combined statement of income does not include (1) any revenue from the sale of NYSE trading licenses, (2) any revenue or cost saving synergies that may be achievable subsequent to the completion of the merger, or (3) the impact of non-recurring items directly related to the merger.

Certain reclassifications have been made to the historical financial statements of the NYSE, Archipelago and PCX Holdings to conform to the presentation expected to be used by NYSE Group.

Note 2 Purchase Price of Archipelago

For the purpose of preparing the accompanying unaudited pro forma condensed combined statement of financial condition as of December 31, 2005, management made the following assumptions:

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the NYSE memberships were exchanged for: (1) \$300,000 in cash per membership (corresponding to an aggregate payment of \$409.8 million to 1,366 members see Note 3.7), (2) \$70,571 cash dividend to each member (corresponding to an aggregate payment of \$96.4 million to 1,366 members see Note 3.7) and (3) a number of shares of NYSE Group common stock so that the

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NYSE members had an aggregate of 70% of the issued and outstanding NYSE Group common stock after the merger on a diluted basis; and

the shares of Archipelago common stock were exchanged for a number of shares of NYSE Group common stock so that the Archipelago stockholders had an aggregate of 30% of the issued and outstanding NYSE Group common stock after the merger on a diluted basis.

The estimated fair value of NYSE Group securities to be issued to Archipelago stockholders to effect the merger represents the purchase consideration in the merger, which was computed as follows:

		47,838,000 shares(a)
times	\$	22.43 per share(b)
	\$	1,073 million

- (a) Corresponding to the sum of (i) the aggregate number of Archipelago shares of common stock issued as of December 31, 2005, plus (ii) the aggregate number of Archipelago stock options that would have been deemed outstanding for purposes of calculating earnings per share under the treasury stock method as of December 31, 2005, plus (iii) the aggregate number of Archipelago shares underlying restricted stock units, whether vested or unvested, as of December 31, 2005, minus (iv) approximately 1,802,000 Archipelago shares held in treasury.
- (b) Corresponding to the average closing stock price of Archipelago for the five-day period beginning two days before and ending two days after April 20, 2005 (the date the merger was agreed to and announced).

The following is a summary of the preliminary allocation of the total purchase price in the Archipelago acquisition as reflected in the unaudited pro forma condensed combined statement of financial condition as of December 31, 2005 (in thousands):

Historical cost of net assets acquired	\$	422,149
Elimination of Archipelago's historical goodwill and intangibles		(240,618)
Adjustment to fair value property and equipment (Note 3.6)		17,950
Fair value of identifiable intangible assets (Note 3.6)		563,400
Deferred tax impact of purchase accounting adjustments		(225,449)
Residual goodwill created from merger		535,568
Total purchase price	\$	1,073,000

Note 3 Pro Forma Adjustments

- [3.1] To reverse the revenue recognized by PCX Holdings in relation to its exchange facility agreement with Archipelago. In May 2001, Archipelago acquired the right to operate as the exclusive equity trading facility of PCX Equities, including the rights to certain revenue streams comprised primarily of transaction fees, market data fees and listing fees, for an aggregate consideration of \$90.0 million. Archipelago determined that this intangible asset had an indefinite life and, as such, it is not subject to amortization. PCX Holdings deferred the recognition of a portion of the consideration over a period of five years.
- [3.2] To reverse the regulatory oversight revenue recognized by the Pacific Exchange and corresponding regulatory fees incurred by Archipelago. Under the terms of the facility services agreement between the Pacific Exchange and Archipelago, Pacific Exchange provided certain regulatory services to Archipelago in return for regular payments as negotiated between the parties.

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- [3.3] To reverse the registered representative fee revenue recognized by Archipelago (as contra routing and clearing fees) and corresponding expense recorded at PCX Holdings (as contra revenue). Prior to the acquisition of PCX Holdings by Archipelago, PCX Holdings forwarded a portion of the registered representative fees received from the National Association of Security Dealers to Archipelago.
- [3.4] To adjust the income tax provision for the effect of the pro forma adjustments based upon a combined federal, state and local corporate income tax rate of 40.0%. Deferred income tax impacts as a result of the purchase accounting adjustments were also estimated at a \$40.0% blended income tax rate.
- [3.5] To adjust the weighted average shares outstanding to reflect the retirement of 1,645,415 shares of Archipelago common stock held by the Pacific Exchange at the time of acquisition.
- [3.6] To adjust the book value of Archipelago fixed assets and intangible assets to their estimated fair value. The preliminary allocations included in the unaudited pro forma condensed combined financial data are as follows (in thousands):

	<u>Increase in value</u>	<u>Estimated average remaining useful life</u>	<u>Estimated annual depreciation expense</u>
Fixed asset class:			
Software	\$ 12,172	5 years	\$ 2,434
Other equipment	5,778	3 years	1,926
	<u>17,950</u>		
Fixed assets	\$ 17,950		
Intangible asset class:			
	<u>Value</u>	<u>Estimated average remaining useful life</u>	<u>Estimated annual depreciation expense</u>
National securities exchange registration	\$ 496,000(a)	Indefinite	n/a
Customer relationships	31,300	20 years	1,565
Trade names	36,100(b)	20 years	1,805
	<u>563,400</u>		
Intangible assets	\$ 563,400		
Total	\$ 581,350		\$ 7,730

- (a) Prior to the completion of the PCX Holdings acquisition, the contractual right to operate ArcaEx as the exclusive equities trading facility of the Pacific Exchange and PCX Equities (and following the completion of the PCX Holdings acquisition, Archipelago's ownership of the Pacific Exchange and PCX Equities) allowed Archipelago to (i) generate revenues from market data fees (from equities and, following the completion of the PCX Holdings acquisition, options trading) and listing fees, and (ii) reduce its costs since clearing charges are not incurred for trades matched internally on ArcaEx. As a national securities exchange, Archipelago is eligible to earn market data and listing fees and benefit from clearing cost savings.
- (b) Includes the Archipelago and ArcaEx trade names.

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[3.7]

As of December 31, 2005, the equity of the NYSE Group consisted of the following (in thousands):

Historical equity of the NYSE	\$	799,125
Less: NYSE payment to members (Note 2)		(409,800)
Less: NYSE dividend to members (Note 2)		(96,400)
Estimated fair value of Archipelago		1,073,000
		<hr/>
Total equity of NYSE Group	\$	1,365,925
		<hr/>

[3.8]

To eliminate the merger costs incurred by the NYSE and Archipelago as well as related Archipelago executive compensation and NYSE exit costs to arrive at pro forma income from continuing operations. The merger costs and related executive compensation and exit costs represent nonrecurring charges directly attributable to the merger.

[3.9]

To adjust the weighted average number of shares outstanding used to determine basic and diluted pro forma earnings per share based upon the exchange of shares of Archipelago common stock for the equivalent of 30% of the NYSE Group common stock.

INDUSTRY OVERVIEW

General

Traditional Market Centers

The U.S. capital markets consist of several market centers that systematically bring together buyers and sellers for the purpose of buying and selling securities. Generally, market centers are typified by the type of security products listed for trading on the market. Historically, stock markets like the NYSE operated primarily on a trading floor with all trades in a particular stock taking place in a specific place on the floor through or under the supervision of a designated dealer known as a specialist. A specialist oversees trading and is required to maintain a fair and orderly market, acting as both a market maker and auctioneer.

In 1971, the National Association of Securities Dealers Automated Quotation system, or Nasdaq, an electronic quotation network without a physical trading floor, was introduced as an enhancement of the traditional telephone-based over-the-counter market.

Electronic Trading

In 1996, the SEC adopted the order handling rules which allowed a number of electronic trading systems (including the Archipelago ECN, the precursor of ArcaEx and NYSE Arca), to emerge and compete with traditional market centers. These electronic networks included ECNs and other alternative trading systems, which provide an efficient means of access to market centers. Innovations in technology and telecommunications have increased the speed of communications and the availability of information, facilitated the globalization of commerce, and lowered transaction costs. New methods enable investors to access and participate in the equity securities markets more easily and quickly and less expensively. These developments, combined with the implementation of the order handling rules, have led to significant growth in electronic trading. However, the impact of electronic trading has been varied with respect to NYSE-listed equity securities and Nasdaq-listed equity securities. Electronic trading has thus far had a more significant impact on the market structure of the Nasdaq market and today much of the volume in Nasdaq-listed securities is handled by electronic trading systems like NYSE Arca. However, electronic trading in NYSE-listed securities continues to grow on NYSE Direct+®, competing crossing systems and ECNs.

Recent Trends and Developments

In recent years, there have been a number of strategic alliances and consolidations among stock market participants, including Archipelago's merger with REDIBook ECN LLC and acquisition of PCX Holdings, Nasdaq's acquisition of both INET and Brut, LLC, and the merger of the NYSE and NYSE Arca.

In addition, there has been a recent trend among some large banks and brokerage firms of investing in securities market centers and ECNs including:

In June and August 2005, Merrill Lynch, Citadel Derivatives Group LLC, Citigroup, Credit Suisse, Morgan Stanley and UBS acquired stakes in the Philadelphia Stock Exchange, Inc.

On August 25, 2005, the Boston Stock Exchange announced the formation of a joint venture with Fidelity Brokerage Co., Lehman Brothers Holdings Inc., Credit Suisse and Citigroup to launch an electronic stock exchange to be named the Boston Equities Exchange, or BeX.

In January 2006, Citigroup announced the purchase of OnTrade, Inc., an ECN, which it intends to use to develop an electronic stock transaction network expected to launch during the first half of 2006.

Also, the SEC recently approved Nasdaq Stock Market Inc.'s application to operate as a national securities exchange, allowing it to separate from its longtime regulator and owner, the NASD. Nasdaq will

now be permitted to operate a new subsidiary, the Nasdaq Stock Market, as an SRO. Operating as an exchange means the Nasdaq Stock Market will function according to its own trading, listing, membership and other rules, with its own members and its own regulations.

U.S. Equities Market

Trading Environment

Over the long term, the U.S. equities markets have experienced a steady growth in trading volumes, although growth has been interrupted, from time to time, by volume declines resulting from weak economic performance and related factors.

For example, from 1995 to 2000, the major U.S. equities market indices experienced substantial growth. The growth in equity trading volumes resulted from a number of factors, including strong economic conditions and new methods for investing. Technological innovation, including the increasing importance of electronic trading platforms and the resulting drop in transaction costs, has further stimulated trading activity. New technology also allowed development of high-volume electronic trading strategies, which have helped increase daily trading volumes.

This period of growth was followed by a period of severe decline and significant volatility in the prices of equity securities between 2000 and early 2003. The weak and uncertain economic climate, combined with corporate governance and accounting concerns, contributed to generally lower equity securities prices, decreased corporate activity, increased market volatility, and a generally more difficult business environment. In 2003, however, overall volume in U.S. equity markets increased slightly, and this trend continued in 2004 and 2005. Trading volumes in U.S. equity markets increased by 6.9% in 2004 compared to 2003, and total volumes increased another 5.9% in 2005 compared to 2004. Consolidated volumes in NYSE-listed securities increased 4.9% in 2004 compared to 2003, and 12.8% in 2005 compared to 2004. Nasdaq trading volume increased by 7.7% between 2003 and 2004, yet it declined by 0.2% in 2005 compared to 2004. Prices strengthened in 2003 and 2004, and the major U.S. equity market indices posted back-to-back yearly gains for the first time since 1999. However, in 2005, the Dow Jones Industrial Average decreased 0.6%, while the Nasdaq Composite Index gained 1.4%, the S&P 500 Stock Index added 3.0% and the NYSE Composite Index rose 7.0%.

Trading in NYSE-Listed Securities

The market centers that execute and report trades in NYSE-listed securities through the Consolidated Tape Association Plan ("CTA Plan") include the NYSE, NYSE Arca, the AMEX, the Boston Stock Exchange, the Chicago Stock Exchange, the Chicago Board Options Exchange, the National Stock Exchange, Nasdaq Stock Market (which at present reports executions in listed securities effected off of exchanges as well as activity on the Nasdaq Market Center, INET and Brut, LLC) and the Philadelphia Stock Exchange. These market centers, as well as ECNs and other market participants, have access to the Intermarket Trading System ("ITS"), enabling them to route trading interest (through ITS) to publicly displayed quotes in all ITS participant markets trading U.S. exchange-listed stocks.

The NYSE, like other floor-based exchanges, is an auction-driven marketplace and trading is conducted in a single physical location with a single specialist in each stock and floor brokers executing customer orders in a continuous market. The specialist is required to maintain a fair and orderly market, acting as a full-time liquidity provider and dampening price volatility by using capital and stabilization rules to buy or sell against the prevailing trend. In contrast, NYSE Arca and other electronic market centers do not maintain a physical trading floor, and instead link traders to multiple U.S. market centers electronically. However, certain of these electronic market centers, such as NYSE Arca, also employ an auction-driven order execution structure.

Floor-based exchanges are, to varying degrees, integrating electronic trading into their floor-based models. Approximately 11.4% of the NYSE's total trading volume for the year ended December 31, 2005

was executed electronically on NYSE Direct+®, our electronic trading platform. Electronic trading on the NYSE is expected to increase with the implementation of the NYSE Hybrid MarketSM, which is intended to combine the best features of auction markets and electronic markets. The NYSE Hybrid MarketSM is intended to provide investors greater access, faster executions and more trading choices through greater use of technology, while enhancing the benefits provided by specialists and floor brokers. For a more detailed discussion of the NYSE Hybrid MarketSM, see "Business Information About the NYSE The NYSE Hybrid Market Initiative."

Trading in Nasdaq-Listed Securities

The market centers that execute and report trades in Nasdaq-listed securities through the Nasdaq OTC/UTP Plan include the Nasdaq Stock Market, NYSE Arca, AMEX, the Chicago Stock Exchange, the Boston Stock Exchange, the National Stock Exchange, the Philadelphia Stock Exchange and the NASD's Alternative Display Facility (which is a quoting and trading facility only). The unlisted trading privilege ("UTP"), is a right, provided by the Exchange Act, that permits securities listed on any national securities exchange to be traded by other such exchanges. The NYSE is not a participant in the OTC/UTP Plan and, as such, does not provide access for trading Nasdaq-listed securities; however, access is available through NYSE Arca.

Trading in Nasdaq-listed securities is conducted among a group of electronic and floor-based markets. Nasdaq also uses a decentralized multiple market maker model where market makers can internalize order flow (or fill an order with the market maker's own inventory). A number of electronic trading systems emerged during the mid-1990s as regulatory changes and technology advances paved the way for ECNs, including the Archipelago ECN, the predecessor to NYSE Arca, to compete with Nasdaq. The technology capabilities of ECNs provided benefits including fast automated execution, certainty, anonymity and low-cost trading. Greater connectivity and smart order routing allowed for order flow to migrate more freely across competing market venues. In addition, growing volumes in the most liquid Nasdaq stocks enabled more trades to match on electronic agency systems without dealer intervention. These developments led to dramatic growth in electronic trading and resulted in a shift in liquidity away from Nasdaq toward ECNs, particularly in the most actively traded Nasdaq-listed stocks. Intense competition for order flow among participants led to significant pricing pressure, including lower transaction fees and the introduction of "liquidity payments" to customers who added system liquidity by posting buy orders or sell orders.

The key factor in the growth of competition in Nasdaq-listed securities was the SEC's adoption of the order handling rules in 1996. These rules provide a specified role for qualified ECNs. The order handling rules deal specifically with the processing of limit orders, which are orders with an associated limit price above which a buyer, or below which a seller, will not trade. Under the order handling rules, a market maker that receives a limit order better than its own published quote, or at the same price as its published quote for more than a *de minimis* size, must generally execute the order, incorporate the limit order price into its published quote or pass the order on to an ECN for public display and execution access. The rules created opportunities for the development of qualified ECNs, including NYSE Arca, to which Nasdaq market makers could route certain customer limit orders in order to comply with the new rules. For this reason, and due to the other benefits of an electronic platform, such as faster execution and anonymity, qualified ECNs began to evolve as alternative trading venues for trade execution.

Listing Services

Registered national securities exchanges also provide issuer listing services that provide a venue where issuers may list their securities for trading. Although the regional exchanges provide a listing venue, the primary U.S. markets for issuers to list are the NYSE and Nasdaq Stock Market, and, to a lesser extent, AMEX. Only registered national securities exchanges are permitted to provide a listing venue for issuers.

The NYSE has the highest overall listing standards of any securities marketplace. In 2005, the NYSE obtained over 90% of all domestic initial public offerings that qualified to list under the NYSE's standards, as measured by the aggregate proceeds raised by companies listing on U.S. exchanges. Building on the NYSE's premier brand and listing business, we plan to generate new revenue from the development of a listings venue on NYSE Arca for smaller-cap firms that do not initially qualify for the NYSE's listing standards. We estimate that approximately two-thirds of the companies that currently list on Nasdaq do not meet the NYSE's listing requirements. The creation of an NYSE Arca listings platform will provide us with an opportunity to target a select universe of these companies, which historically have not had the choice to list on a platform affiliated with the NYSE.

Market Data Services

Registered national securities exchanges also participate in the collection, consolidation and dissemination of trade and quote data and earn revenue generated from the sale of such data. These fees are referred to as "tape fees." Market data fees are distributed among exchange participants pursuant to the terms of the various national market system plans the CTA Plan and CQ Plan in NYSE and AMEX-listed securities, and the Nasdaq OTC/UTP Plan in Nasdaq-listed stocks. Under the CTA Plan and CQ Plan, after costs are deducted, market data fees are distributed among participants based on their respective number of trades. Under the OTC/UTP Plan in Nasdaq-listed stocks, after costs are deducted, market data fees are distributed among participants based on their respective number of shares and trades. The NYSE participates only in the CTA Plan and CQ Plan, and is currently not a UTP Plan participant. NYSE Arca is a member of the CTA Plan and CQ Plan, and the Nasdaq OTC/UTP Plan and shares in the revenue generated from each of these plans.

In addition to sharing revenue generated by the sale of consolidated market data under the data plans, these registered national securities exchanges sell other proprietary data to vendors and market participants. Certain exchanges also have established programs to share the market data revenue they receive with market participants that report trades to them in AMEX-listed and Nasdaq-listed securities to compete for order flow.

Regulation NMS, which is discussed below, will update the formulas for allocating revenue derived from market data fees by, among other things, including a component that reflects quoting activity and eliminating allocations for manual quotes. Regulation NMS also requires the creation of advisory committees composed of non-SRO representatives to the data plans, and authorizes market centers to distribute their own trade data independently of the data plans.

Regulation NMS

In April 2005, a new series of market reform proposals, collectively known as Regulation NMS, were adopted by the SEC. Regulation NMS will govern certain aspects of trading on securities market centers, and its provisions are scheduled to become effective at various points throughout 2006. Regulation NMS is designed to modernize the regulatory structure and create greater uniformity in the U.S. equity markets. Regulation NMS could have a significant impact on the industry. For a detailed discussion of the provisions of Regulation NMS, see "Regulation Recent Regulatory Developments."

U.S. Equity Options Markets

The market for trading U.S. equity options has increased dramatically over the past 10 years at a compound annual growth rate of 22.9% from 1995 to 2005, with average daily contract volumes increasing 26.3% in 2005, according to the Options Clearing Corporation. Various factors have contributed to the growth in options trading volumes including increasing investor awareness and broader participation, rising electronic trading and technology deployment, tighter spreads and lower transaction fees, and deeper liquidity. In recent years, trading options has become faster, cheaper, more transparent and more efficient.

There are currently six U.S. equity options exchanges competing for order flow (or orders committed to a particular market) in many of the same equity options products. The original four traditional floor-based options exchanges include AMEX, the Chicago Board Options Exchange, the Pacific Exchange and the Philadelphia Stock Exchange. In January 2005, Archipelago entered into an agreement to acquire the parent company of the Pacific Exchange. The other two U.S. equity options exchanges are the International Securities Exchange and the Boston Options Exchange, which are fully electronic exchanges. Nasdaq has announced its intention to allow customers to route options orders to major option exchanges by the first quarter of 2006. Nasdaq's proposed service is not expected to provide for option order matching. Rather, it is expected only to distribute orders to other U.S. option markets, such as NYSE Arca, for execution.

All of the traditional floor-based exchanges have adopted hybrid models, incorporating greater electronic trading capabilities to complement floor trading and improve access for customers, broker/dealers and market makers. For example, in October 2003, NYSE Arca introduced its PCX PLUS electronic platform to accommodate independent quotes from market makers.

The SEC regulates the options industry. It is a requirement under the Options Intermarket Linkage Plan and SRO rules that options exchanges avoid executing trades at prices inferior to the best available price, called a "trade-through." In early 2003, options exchanges began sending orders through an intermarket linkage that is governed by the Options Intermarket Linkage Plan and is designed to facilitate the routing of orders between exchanges and improve execution quality.

Greater competition among equity options markets since 1999 has resulted in a proliferation of incentive arrangements, including payment for order flow. Recently, NYSE Arca announced plans to initiate a pilot program to begin quoting and trading listed options in certain ETFs in penny increments, instead of five or ten cent increments, subject to SEC approval. The move to penny pricing could have a significant impact on the competitive environment as orders are directed to the markets with the most aggressive quotes. The change may also add significant quote traffic and require substantial additional bandwidth capacity. The impact of penny pricing in options has been the subject of significant debate, and this proposal may not be approved by the SEC in the near future. For further discussion of the potential effect of the SEC rejecting this proposal, see "Risk Factors Risks Relating to Our Business NYSE Arca has had discussions with SEC staff regarding a potential pilot program to trade and quote options on certain ETFs in penny increments, but any proposal that NYSE Arca may make on this issue may be denied by the SEC."

U.S. Fixed Income Markets

In contrast to the equity and options markets, the fixed income markets are more fragmented and opaque. Historically, the fixed income markets have traded over-the-counter with institutional investors and broker-dealers executing transactions via telephone and fixed income securities changing hands through intermediaries known as inter-dealer brokers. Electronic fixed income securities trading systems have emerged and are creating more centralization, improving transparency and increasing the speed of execution. These systems operate as quasi-exchanges defined by centralization of orders, more open market information and more standardized rules. Currently, much of the electronic trading in fixed income securities occurs in the highly liquid U.S. Treasuries market. Voice brokering remains more prominent in other fixed income securities markets, such as corporate and municipal bonds.

The NYSE was an early pioneer in providing electronic fixed income trading through the Automated Bond System (ABS), which was launched in 1977. Most ABS volume is in odd-lot corporate bonds, but the system also offers trading in convertible, government and municipal bond trading. ABS is an order-driven system that allows broker-dealers to trade directly with each other on an electronic basis, with real-time reporting of all quotations, trade prices, and quantities. These broker-dealer clients represent the principal source of secondary market liquidity in sovereign and corporate bonds.

Key competitors to ABS include inter-dealer brokers that conduct business over the telephone and electronically, other multi-dealer trading companies and electronic trading venues such as MarketAxess and BondDesk. Currently, only bonds that are listed by NYSE-listed companies are eligible for trading on the NYSE's ABS system, which has limited ABS growth in recent years, with the total value traded on ABS at \$917 million in 2005, compared to \$1.3 billion in 2004 and \$2.5 billion in 2003.

On July 8, 2005, the SEC published for comment a proposed rule change that, if approved, would allow the NYSE to trade a substantially greater inventory of corporate bonds on ABS since bonds would not be required to be listed in order to be traded, and would therefore render most of the corporate bonds issued by NYSE-listed companies eligible for trading on the NYSE's ABS system. The comment period ended on August 15, 2005, and the NYSE is awaiting further comment from the SEC on the proposal.

Additional Market Trends and Developments

The following are additional market trends and developments that are common to all of these markets:

Globalization. One of the most significant industry developments is the globalization of world markets. The growth of global capital markets, combined with the emergence of ECNs and other trading networks, has posed a significant challenge to all exchanges and has resulted in greater competition for listing and trade execution among markets in different geographical areas. Financial institutions, investment firms and other financial intermediaries increasingly trade across national boundaries, in numerous markets and asset classes, outside traditional exchanges and even directly among themselves. This has led to increased competition between domestic exchanges within the United States, and between domestic and international exchanges, and to a demand for increased technological and regulatory cooperation between market centers in different jurisdictions.

Demutualization and Consolidation. Another common trend in the industry is demutualization and consolidation of market centers. In recent years, many market centers in both Europe and the United States (such as the London Stock Exchange and Nasdaq) have demutualized to provide greater flexibility for future growth. In addition, the number of new market entrants, the need to respond to the globalization of capital markets, and the desire to provide cross-border services to clients has led to a series of consolidations, both in the United States and abroad. For example, three exchanges in Paris, Brussels and Amsterdam combined in 2000 to create Euronext N.V., the first cross-border European exchange. In 2002, Euronext acquired LIFFE (the London International Financial Futures and Options Exchange) and BVLP (Bolsa de Valores de Lisboa), a Portuguese exchange. U.S. consolidation has largely been among participants in the cash equity markets, while some foreign exchanges have been combining across equity and derivatives markets and moving to a multi-product business model to broaden their revenue sources. In the United States, the major stock and derivatives markets remain separate, though customers, including the NYSE's customers, are increasingly seeking multi-asset class execution products.

Regulatory and Governance Changes. As mentioned above, Regulation NMS mandates a number of changes that could have a significant impact on the industry. See "Regulation Recent Regulatory Developments." There have also been changes in corporate governance standards that have affected the industry. Both regulators and the investing public have demanded greater transparency and stronger corporate governance in the securities industry.

Competition

The securities markets are intensely competitive, and competition may be expected to further intensify. We have numerous aggressive competitors, both domestically and around the world. We compete with other exchanges and markets, ECNs, market-makers and other execution venues based on various factors including best price, depth of liquidity, all-in cost, anonymity, speed, functionality and certainty of

execution. In addition to competition for order flow, we compete with other exchanges and markets for listings, and we also compete in the market data products arena. Because some of our prospective competitors are not registered securities exchanges, they operate with less regulatory oversight than we do, enabling them to move with greater agility in response to changes in the markets or economic environment.

Equity Securities Trading. Our principal domestic competitors for trading listed equity securities include Nasdaq, AMEX and regional exchanges such as the Chicago Stock Exchange, the Boston Stock Exchange and the Philadelphia Stock Exchange. We also compete with ECNs and alternative trading systems such as POSIT, Pipeline Trading and Liquidnet. In addition, we also face competition for trading securities from broker-dealers, including some of our largest customers, that internalize order flow. Internalization of order flow occurs when a broker-dealer trades against its own customers' orders, thus decreasing trading volume on public securities markets. See "Risk Factors Risks Relating to Our Business We face numerous competitors, including both U.S.-based and non-U.S. based competitors."

In recent years, the pricing model for trade execution for equity securities has changed in response to competitive market conditions. For example, in an effort to capture a greater share of the trading of Nasdaq-listed securities, for a brief period of time beginning in late 2004, Nasdaq aggressively discounted or eliminated fees for its high-volume customers (customers providing more than a daily average of 20 million shares) in return for certain trading activity on its systems. This aggressive pricing strategy significantly decreased Nasdaq's profit margin for this period of time and contributed in part to a slight decline in NYSE Arca's share of trading of Nasdaq-listed securities in 2005.

However, as of February 1, 2006, Nasdaq has changed its fee structure and dramatically increased the threshold levels required for high volume customers to qualify for Nasdaq's discounted fee structure. As a result, we anticipate fewer high volume customers will be able to qualify for Nasdaq's discounted pricing structure and more customers will be subject to Nasdaq's standard fees, which are comparable to those charged by NYSE Arca.

Our current competition may intensify if the consolidation trend in the securities industry continues and other industry participants form joint ventures or consortia to provide services similar to those that we provide, or become competitive with us through acquisitions. In particular, Nasdaq completed its acquisition of INET, an ECN, on December 8, 2005. This combination resulted in a substantial combined trading share of Nasdaq-listed trading volume. We may also face competition from new entrants into the markets in which we compete, or from new initiatives from existing market participants, including established securities exchanges. For example:

In June and August 2005, the Philadelphia Stock Exchange entered into strategic alliances with Merrill Lynch, Citadel Derivatives Group LLC, Citigroup, Credit Suisse, Morgan Stanley and UBS. According to the Philadelphia Stock Exchange, these investments will advance its goal of growing its business and technology.

On August 25, 2005, the Boston Stock Exchange announced its intention to launch a new stock trading network called the Boston Equities Exchange, or BeX, in connection with a joint venture entered into with Fidelity Brokerage Co., Lehman Brothers Holdings Inc., Credit Suisse and Citigroup.

In August 2005, Nasdaq announced its intention to allow customers to route options orders to major options exchanges by the first quarter of 2006.

On November 17, 2005 the International Securities Exchange, Inc. ("ISE"), a U.S. equity options exchange, joined the OTC/UTP Plan (which is described further under "Industry"), which will allow the ISE to enter into the equities trading market and to trade Nasdaq-listed securities. On November 10, 2005 the ISE also announced its intention to join the CTA Plan and CQ Plan, (which

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is described further under "Industry"), which will allow the ISE to trade NYSE and AMEX-listed securities.

In January 2006, BATS Trading, Inc., a company located in Kansas City, launched a new alternative trading system.

In January 2006, Citigroup acquired OnTrade Inc., an electronic communications network and announced its intention to use OnTrade to launch its own electronic stock trading network during the first half of 2006.

Listings. Our principal domestic competitors for corporate listings include Nasdaq and AMEX. In addition, we face competition for listings of non-U.S. issuers from a number of non-U.S. stock exchanges, most prominently the London Stock Exchange and the Hong Kong Stock Exchange, as well as Euronext N.V., Deutsche Börse Group, and exchanges in Tokyo, Hong Kong, Singapore and Australia.

Although the NYSE has continued to enjoy its traditional level of success in the business of listing companies new to the market, competition in this area has increased substantially in recent years. For example, Nasdaq recently unveiled plans to create new tiers of listing standards for its listed companies to help it better compete with the NYSE; Nasdaq plans to launch its new Nasdaq Global Select Market on July 1, 2006. In addition, in an effort to increase the services offered to its listed companies, Nasdaq recently acquired both Shareholder.com, an investor relations firm, and Carpenter Moore, an insurance-brokerage firm, and also established a joint venture to develop independent research for its listed companies. As a result of this heightened competition, the NYSE has had to devote increased resources to the business. In addition, other listings, such as structured products and ETFs, have traditionally been less of a focus, and other markets, particularly AMEX, have emphasized these listing niches.

The NYSE also competes for transfer listings (which are listings of companies that are already listed on Nasdaq or AMEX that are also eligible for listing on the NYSE). The NYSE markets the benefits of a NYSE listing to these companies. Since the beginning of 2000, the NYSE has listed 161 publicly traded companies from other U.S. markets as transfers to the NYSE. This does not include 61 ETFs that Barclays Global Investors announced in July 2005 it would transfer to the NYSE, the first 40 of which were transferred in November 2005.

In addition, the NYSE competes with other exchanges around the world, such as the London Stock Exchange, for secondary listings of securities of non-U.S. companies. Competition for secondary listings has become increasingly intense due to legal and regulatory requirements associated with listing securities in U.S. securities markets. For example, in addition to its Main Market for issuers, the London Stock Exchange maintains the Alternative Investment Market (AIM), which is a listing platform without financial or corporate governance standards that has attracted over 1,100 issuers over the past few years, including 29 from the United States. The London Stock Exchange specifically markets AIM's ability to provide a listing platform that enables companies to bypass compliance with the Sarbanes-Oxley Act as a primary benefit of listing on AIM.

Fixed Income and Options. Key competitors to the NYSE in fixed income include inter-dealer brokers that conduct business over the telephone and electronically, other multi-dealer trading companies and electronic trading venues such as MarketAxess and BondDesk. Our principal competitors for the trading of options are the ISE, the Chicago Board Options Exchange, Inc., AMEX, the Philadelphia Stock Exchange and the Boston Options Exchange. Options exchanges are also increasingly facing competition from internalization by broker-dealers.

BUSINESS

Overview

We are a holding company that, through our subsidiaries, operates and regulates two securities exchanges: the NYSE and NYSE Arca. We are a leading provider of securities listing, trading and information products and services. We were formed in connection with the merger of the NYSE and Archipelago, which was completed on March 7, 2006. Although the trading platforms of the NYSE and NYSE Arca currently operate separately, we are actively integrating certain of their activities to achieve revenue and cost synergies.

For the fiscal year ended December 31, 2005, on a pro forma basis reflecting the merger, NYSE Group generated \$1.7 billion in revenues and approximately \$90 million in income from continuing operations.

The NYSE. The NYSE is the world's largest and most liquid cash equities exchange. The NYSE is approximately three times the size of the next largest cash equities market in the world in terms of aggregate market capitalization of domestic listed companies. The NYSE provides a reliable, orderly, liquid and efficient marketplace where investors meet directly to buy and sell listed companies' common stock and other securities. For 213 years, the NYSE has facilitated capital formation, serving a wide spectrum of participants, including individual and institutional investors, the trading community and listed companies. As of March 3, 2006, 2,684 issuers, which include operating companies, closed-end funds and ETF's, were listed on the NYSE. Our listed operating companies represent a total global market capitalization of over \$22.5 trillion. In January and February 2006, on an average trading day, over 1.8 billion shares, valued at over \$69 billion, were traded on the NYSE. The NYSE operates an auction market in which orders are electronically transmitted for execution. Specialists on the trading floor are charged with maintaining fair, orderly and continuous trading markets in specific stocks by bringing buyers and sellers together and, when circumstances warrant, adding liquidity by buying and selling stock for their own account. Floor brokers act as agents on the trading floor to facilitate primarily large or complicated orders. In this prospectus, we refer to this trading model as the "agency auction trading model."

NYSE Arca. NYSE Arca is the first open, all-electronic stock exchange in the United States and has a leading position in the trading of exchange-listed securities and ETFs. NYSE Arca is also an exchange for trading equity options. Through NYSE Arca, customers can trade over 8,000 equity securities and over 175,000 option products. NYSE Arca's trading platforms link traders to multiple U.S. market centers and provide customers with fast electronic execution and open, direct and anonymous market access. The technological capabilities of NYSE Arca's trading systems, combined with its trading rules, have allowed NYSE Arca to create a large pool of liquidity that is available to customers internally on NYSE Arca and externally through other market centers. On an average trading day, over 700 million shares, valued at over \$25 billion, are traded through NYSE Arca's trading platforms.

SIAC. We also own two-thirds of the SIAC and SIAC's financial results will be reported on a consolidated basis with our results. SIAC is an important industry resource providing critical automation and communications services to the NYSE, AMEX and other organizations to support order processing, trading and the reporting of market information, among other functions. SIAC also provides system support for certain national market system functions and for important regulatory and administrative activities.

NYSE Regulation. We also play a critical role in the U.S. securities industry through our two SROs. As a not-for-profit company within our holding company, NYSE Regulation regulates the activities of member organizations through enforcement of SRO rules and federal securities laws. In addition, NYSE Regulation oversees compliance by listed companies with our financial and corporate governance listing standards. See "Regulation NYSE Regulation" for a discussion of our regulatory business.

Business Structure

Our business consists of two market centers: (1) the NYSE and (2) NYSE Arca. The NYSE's business is operated mainly through two separate entities:

New York Stock Exchange LLC. New York Stock Exchange LLC is the entity registered as a national securities exchange. New York Stock Exchange LLC holds all of the equity interests of NYSE Market, NYSE Regulation and 66²/₃% of SIAC.

NYSE Market, Inc. NYSE Market, Inc. is a wholly owned subsidiary of New York Stock Exchange LLC. NYSE Market conducts the market activities of the New York Stock Exchange.

NYSE Arca's business is operated mainly through three separate subsidiaries:

NYSE Arca, LLC. NYSE Arca, LLC operates an all electronic trading venue for equity securities listed with NYSE Arca, the NYSE, Nasdaq, AMEX, as well as for ETFs.

NYSE Arca, Inc. and NYSE Arca Equities, Inc. NYSE Arca, Inc. and NYSE Arca Equities, Inc. operate an exchange for trading equity options listed on national markets and exchanges including the facilities, technology, systems and regulatory surveillance and compliance services required for the operation of a marketplace for trading options.

The regulatory activities of the NYSE and NYSE Arca are conducted by NYSE Regulation, Inc. NYSE Regulation is a New York not-for-profit corporation whose sole equity member is New York Stock Exchange LLC. For a more detailed description of the activities of NYSE Regulation, see "Regulation NYSE Regulation."

History

We were organized under the laws of the state of Delaware in 2005 in connection with the merger of the NYSE and Archipelago, which was completed on March 7, 2006.

NYSE. The NYSE operates a floor-based auction stock market, with all trades in a particular NYSE-listed stock taking place in a specific place on the floor through or under the supervision of a designated dealer known as a specialist. The specialist oversees trading and is required to maintain a fair and orderly market, acting as both a market maker and auctioneer. The NYSE also provides customers with electronic trading for NYSE-listed securities.

As demand for securities trading has increased, the NYSE has expanded its physical trading floor space, and as technology has become increasingly important in the U.S. securities industry, the NYSE has sought to develop technologies to increase choice and improve service to its customers, and to compete more effectively. In 1976, the NYSE introduced the Designated Order Turnaround (DOT) system to electronically route smaller trades. Two years later, the NYSE and other exchanges jointly introduced the Intermarket Trading System to provide an electronic link between the NYSE and other exchanges. In 2001, in order to provide our customers with increased choice of execution methods, the NYSE introduced NYSE Direct+®, which is a fully electronic execution trading platform. For the year ended December 31, 2005, approximately 11.4% of the NYSE's total share volume was executed automatically through NYSE Direct+®. The NYSE is also in the process of creating the NYSE Hybrid MarketSM, which is intended to combine the advantages of the agency auction trading model and those of automatic execution, offering the speed, certainty and anonymity of electronic trading as well as the opportunity for negotiation and price improvement provided by an auction.

NYSE Arca. In December 1996, Gerald D. Putnam, our president and co-chief operating officer, co-founded the Archipelago Electronic Communications Network, or the Archipelago ECN, the precursor to NYSE Arca, by taking advantage of a market opportunity resulting from the SEC's new order handling rules governing securities trading. These rules were designed to address growing concerns regarding unfair

and discriminatory pricing of customer orders for securities, and to promote transparency and enhance execution opportunities for customer orders in U.S. equity markets. See, "Industry Overview" for a discussion of industry rules and developments.

ECNs are electronic trading systems that automatically match buy and sell orders at specified prices, and are registered with the SEC as broker-dealers. The Archipelago ECN was the first ECN to link traders to pools of liquidity throughout the U.S. securities markets. In July 2000, Archipelago partnered with the Pacific Exchange to develop ArcaEx. The SEC approved the establishment of ArcaEx and the related rules in October 2001.

In March 2002, ArcaEx's listed platform became operational and Archipelago began trading Pacific Exchange-listed securities on ArcaEx. By November 2002, Archipelago completed the rollout of exchange-listed securities on ArcaEx, and in April 2003 Archipelago fully integrated its trading platforms and completed the migration of Nasdaq-listed securities from Archipelago ECN to ArcaEx.

On August 19, 2004, Archipelago completed an initial public offering of its common stock and on September 26, 2005, Archipelago acquired PCX Holdings, Inc. and all of its wholly owned subsidiaries, including the Pacific Exchange and PCX Equities.

Our Competitive Strengths

Our principal competitive strengths include:

Leading Global Brand Name and Reputation. The "New York Stock Exchange" or "NYSE" is among the most well-recognized brand names in the world. For 213 years, the NYSE has facilitated national and global capital formation and symbolized the strength and vitality of the U.S. securities markets. Issuers that list with the NYSE benefit from association with this brand name.

World's Premier Listing Venue. We operate the world's premier listing venue. The NYSE has the highest overall listing standards of any securities marketplace in the world. These listing standards improve the prestige and value of a NYSE listing. In 2005, the NYSE obtained over 90% of all domestic initial public offerings that qualified to list under the NYSE's standards, as measured by the aggregate proceeds raised by companies listing on U.S. exchanges. In addition, through NYSE Arca, we provide a venue for issuers to list and trade securities that do not initially qualify to list under the NYSE's criteria. Our listing venues provide issuers with unique benefits, including the affiliation with one of the world's leading brands, superior market quality and a wide range of value-added products and services.

World's Largest Equities Market. We operate the world's largest market for listing and trading cash equity securities and are an industry leader for the trading of ETFs. As of March 3, 2006, the total global market capitalization of the NYSE's listed companies was approximately \$22.5 trillion, greater than the combined value of the Tokyo Stock Exchange (\$4.6 trillion), Nasdaq (\$3.6 trillion), the London Stock Exchange (\$3.1 trillion) and Euronext (\$2.7 trillion). In 2005, proceeds raised from initial public offerings of equity securities of U.S. domestic and non-U.S. companies and closed-end funds on the NYSE totaled approximately \$44 billion, more than four times as much as any other U.S. market and approximately three times as much as any non-U.S. market. We also operate the largest market for trading equity securities in the world and provide a highly liquid trading market for our listed stocks. In 2005, the combined dollar value of transaction volumes of the NYSE and NYSE Arca represented approximately \$17.8 trillion dollars, which was greater than the value of trading of Nasdaq (\$10.1 trillion), the London Stock Exchange (\$5.7 trillion), the Tokyo Stock Exchange (\$4.4 trillion), Euronext (\$2.9 trillion) and the Deutsche Börse (\$1.9 trillion).

Broad Range of Products and Services. We provide our customers with diverse platforms for the trading of listed and over-the-counter equities, ETFs, fixed income products, options and other derivative products, as well as two listing venues for quality companies seeking access to the public markets. By

operating multi-asset class markets that offer an expanded and enhanced range of products and services, we believe that we are reinforcing our leadership position in the global securities market. Through the NYSE and NYSE Arca, we offer multiple opportunities to trade cash equity securities, and we believe that we provide deeper liquidity, lower volatility and execution costs and the best quoted prices. We also believe the combined breadth of our product offerings will create new opportunities to offer our customers a broader array of market data products and services.

Through the NYSE, we provide customers with the world's premier venue for listing their securities as well as a highly liquid and efficient market to execute transactions. We are in the unique position of offering our customers the option of using either floor-based auction trading or electronic trading through NYSE Direct+® for NYSE-listed stocks, which is being further enhanced through the rollout of NYSE Hybrid MarketSM. NYSE-listed stocks show consistently lower volatility and execution costs than comparable stocks listed on other venues. For example, based on a recent study of 67 NYSE-listed companies that transferred from Nasdaq between 2002-2005, the average intraday volatility for these companies was reduced by 48% following their transfer from Nasdaq, while average execution costs were reduced by 38%. These results are attributable to both the extraordinary natural liquidity that resides at the NYSE and the role of the NYSE specialists, who have an affirmative obligation to cushion price movement and reduce volatility.

The NYSE generally produces the best quoted prices in NYSE-listed stocks and warrants, and offered the national best bid and offer 87.9% of the time for the year ended December 31, 2005. During this same timeframe, NYSE Arca set the national best bid and offer 6.3% of the time in NYSE-listed securities. On a combined basis, the market centers of the NYSE Group provided the best quoted prices in NYSE-listed stocks and warrants 94.2% of the time during 2005.

Through NYSE Arca, customers can trade equity securities, ETFs and other derivative products in an all-electronic environment. NYSE Arca also provides customers with a venue for trading equity options listed on exchanges. NYSE Arca's core trading technology platform is highly reliable, efficient, and scalable, and we are actively developing applications to leverage this technology for use in other asset classes including options and fixed income. NYSE Arca's industry leading system is designed to accept up to 16,000 orders per second and to provide up to 1,000 simultaneous customer connections. During 2005, the system handled an average of 38,094,621 orders daily and 3,458,765 trades daily, with a capacity to handle 20 million trades daily. NYSE Arca's electronic systems also provide customers with broad capabilities, including diverse order types and other functionality to meet customers' needs for speed and immediacy.

Strong and Effective Regulation. We believe that our independent regulatory structure and high listing standards enhance our reputation and that of our listed companies and member organizations. NYSE Regulation, which operates as a not-for-profit entity, monitors and examines member organizations for, and enforces compliance with, federal securities laws and the rules of the NYSE and NYSE Arca. NYSE Regulation also oversees compliance by our listed companies with our financial and corporate governance listing standards. We believe that our high original and continued listing requirements have helped us maintain a strong brand name, which by association benefits our listed companies.

Premier Management Team. We have a strong, dedicated and entrepreneurial management team, with significant experience in the securities industry, client service and technology sector. We believe that, through their leadership, we will continue to successfully recognize, anticipate and respond to market opportunities, deliver innovative products and services to our customers, and adapt to changes in our operating and regulatory environment, while continuing to grow our business on a global scale. We believe that we have demonstrated our ability to innovate and execute successfully our business objectives, including managing the successful merger transaction that created NYSE Group.

Our Strategy

We plan to build on our status as the preeminent global exchange by executing a clearly defined strategy:

Build on Strength in Cash Equities Securities Trading. The NYSE is the leading exchange in cash equity securities, and we plan to preserve the unique attributes of price improvement and value-added floor services that dampen volatility and decrease costs. Through NYSE Arca, we intend to continue to grow our leading market position in trading volume of Nasdaq-listed stocks and ETFs. We plan to continue to enhance the trading technology of both the NYSE and NYSE Arca, including the rollout of the NYSE Hybrid MarketSM, which will combine the benefits of an auction market with advanced electronic trading functionality. Together, the NYSE and NYSE Arca will provide a full-service market that offers customers a choice of products and appeals to all types of investors. We believe that this combination will help to maintain our leadership position, enhance our ability to compete with both domestic and global participants, and deliver innovation and efficiency.

Leverage Our Brand Name Across Listing Platforms. Building on the NYSE's premier brand and listing platform, we expect that the NYSE Arca listing venue will derive new revenue from companies with smaller market capitalizations that do not initially qualify for the NYSE's listing standards. We estimate that approximately two-thirds of the companies that list on Nasdaq do not meet the NYSE's listing requirements. NYSE Arca provides us with an opportunity to target a select universe of companies that historically have not had the choice to list on a venue affiliated with the NYSE. We are also in a strong position to compete domestically and internationally for listings and will continue to aggressively pursue listings of publicly traded companies from all over the world. In addition, we are exploring opportunities to offer extended NYSE floor-based trading hours to increase overlap with non-U.S. markets and enhance investor access.

Expand to Other Product Areas. We intend to continue to expand the capabilities that we offer to our customers to trade a variety of asset classes and build on our strong relationships with listed companies to trade other financial products they may issue. For example, in addition to trading in cash equities and ETFs, we plan to provide high-speed, low-cost platforms for trading in derivatives and fixed income products by using NYSE Arca's core trading technology. We will also pursue opportunities to enhance our current portfolio of market data products and services.

Exchange Traded Funds. We plan to leverage NYSE Arca's leading market position, deep liquidity and electronic trading capabilities, as well as the NYSE's listing platform and presence in a range of ETFs.

Options and Other Derivatives. We plan to leverage NYSE Arca's strong presence in options trading, and intend to pursue new opportunities in this fast-growing segment, including the possible development of side-by-side trading in cash equities and derivatives using NYSE Arca's core technology platform. It should be noted, however, that the development of side-by-side trading in cash equities and derivatives would require SEC approval, and the SEC has previously expressed policy concerns regarding such trading.

Fixed Income. We plan to leverage the NYSE's business in corporate and convertible bonds and other fixed income product areas, and we are currently enhancing our existing electronic bond trading platform using NYSE Arca's core technology.

Market Data. We will generate market data in a number of asset classes including cash equities, options, and fixed income, presenting an opportunity to leverage this data by aggregating, analyzing, packaging and distributing it to a broader base of customers in new and different ways. We plan to enhance our market data services and develop new branded data products with richer content to sell to end-users.

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Reduce Costs and Maximize Integration Benefits. As a result of the merger of the NYSE and Archipelago, we expect to achieve operational synergies resulting from the consolidation of capabilities and elimination of redundancies, and to achieve greater efficiencies from increased scale, market integration, more automation and a for-profit structure. While maintaining adequate resources dedicated to NYSE Regulation and its regulatory activities, we have identified cost saving opportunities in a number of areas, including hiring freezes and headcount reductions, the elimination of overlaps in technology, marketing, occupancy, and general and administrative costs, and increased efficiencies in our general business processes.

Pursue Strategic Acquisitions and Alliances. We continually explore and evaluate strategic acquisitions and alliances that could provide us with opportunities to enhance our global competitive position. We intend to pursue domestic and international acquisitions and strategic alliances to further strengthen and diversify our businesses and revenue streams, enter new markets and advance our technology. We may also pursue partnerships and commercial agreements to further build our brand and take advantage of industry changes.

Maintain Strong and Effective Regulation. We believe that our reputation is built in large part on our effective regulatory oversight and listing standards. Stock exchanges must run a fair, well-regulated marketplace. Companies list on a trading venue in part to associate themselves with the branding that comes from meeting high standards in a regulated environment. In addition, broker-dealers send their order flow to a trading venue to seek access to liquidity in a fair and orderly marketplace. We therefore remain committed to maintaining strong and effective regulation. See "Regulation NYSE Regulation."

Information About the NYSE

Overview

The NYSE is the world's largest and most liquid cash equities market. For 213 years, the NYSE has facilitated capital formation by serving a wide spectrum of market participants, including individual and institutional investors, the trading community and listed companies. As of March 3, 2006, the NYSE listed approximately 2,684 issuers (which includes operating companies, closed-end funds and ETFs), many of which are the world's premier companies. In January and February 2006, on an average day, over 1.8 billion shares, valued at over \$69 billion, were traded on the NYSE.

In 2005, the NYSE generated revenues (less Section 31 fees) of approximately \$1.1 billion, which were generated primarily from:

listings fees;

data processing fees;

market data fees;

trading fees; and

facility and equipment fees.

The NYSE also generated revenues from regulatory fees and fines. These funds, however, are used for regulatory purposes. See "Regulation NYSE Regulation."

Listings Business

As of March 3, 2006, approximately 2,684 issuers were listed on the NYSE. Our listed operating companies represented a combined global market valuation of approximately \$22.5 trillion as of that date, which is approximately three times larger than that of the next largest cash equities market globally. As of March 3, 2006, 28 of the 30 publicly traded companies that constitute the Dow Jones Industrial Average and 85.0% of the stocks included in the S&P 500 Index are listed on the NYSE. The NYSE's roster of

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listed companies includes 453 non-U.S. companies from approximately 47 countries with a U.S.-publicly-held float of approximately \$1 trillion and a total global market valuation of approximately \$8 trillion.

Fees are paid by companies when they initially list on the NYSE and annually thereafter. Listing fees, which are subject to a minimum and maximum amount, are based on the number of shares that a company lists with the NYSE. Annual fees are charged on the outstanding shares of the company at the end of each year and are subject to a minimum and maximum fee. Listed companies also pay fees in connection with corporate transactions involving the issuance of new shares, such as stock splits, rights issues, sales of additional securities and mergers and acquisitions. Non-U.S. companies pay fees based on the number of listed securities issued or held in the United States.

Listing fees are an important component of the NYSE's revenue and accounted for 30.5% of the NYSE's total revenues, net of Section 31 fees, in 2005.

New Listings

The NYSE relies on new listings to maintain its competitive position in the United States and global markets. From January 1, 2000 to December 31, 2005, 625 domestic companies listed on the NYSE. This includes 172 closed-end funds, 161 transfers from other markets, 55 spin-offs and 237 initial public offerings of operating companies. Among the initial public offerings of securities qualified to be listed on the NYSE from January 1, 2000 to December 31, 2005, the capital raised by those in fact listing on the NYSE represented 90% of the aggregate proceeds raised in all those qualified offerings. From January 1, 2000 to December 31, 2005, 116 companies have transferred their listing from Nasdaq to the NYSE. During that same period, only three companies voluntarily transferred from the NYSE to Nasdaq. Two additional companies elected to transfer to the Nasdaq in advance of SEC approval of recent amendments made to our continued listing standards that would have resulted in such companies being deemed below compliance.

A key to the NYSE's past success and future growth is its ability to list and retain non-U.S. companies. Generally, international companies are attracted to the U.S. and the NYSE to take advantage of the deep and diverse investor base, to signal that they meet the world's most stringent overall listing standards and to take their place alongside other global leaders. From January 1, 2000 to December 31, 2005, 199 international companies have listed on the NYSE.

We actively pursue new closed-end fund listings. From January 1, 2000 to December 31, 2005, 172 closed-end funds have listed on the NYSE, raising over \$78.9 billion in proceeds in their initial public offerings. This represents 74.8% of the funds qualified to list and 83.7% of the total closed-end fund qualified proceeds. The NYSE currently lists 484 closed-end funds, up from 431 in 2000.

Since 1988, we have supported the capital raising needs of companies qualified to list on the NYSE by providing a market for both debt and equity structured products such as capital securities, mandatory convertibles, repackaged securities and equity-linked index-linked securities and for debt securities traded on the trading floor. The number of new issuances and redemptions of these securities in any given year depends on many external factors, including interest rate levels and changes, economic conditions and financial regulation. From January 1, 2000 to December 31, 2005, the NYSE's structured products group has listed 610 securities.

Listing Standards

The NYSE requires that companies seeking to list securities on the NYSE meet minimum financial, distribution and corporate governance criteria. While in recent years the corporate governance criteria imposed by the various U.S. markets have become substantially similar, the NYSE's overall listing standards have traditionally been, and continue to be, the most stringent of any securities marketplace in the world. Once listed, companies must meet continued listing standards. All standards are periodically reviewed to ensure the NYSE attracts and retains the strongest companies with sustainable business models.

Each year, a number of companies cease to be listed on the NYSE, mostly as a result of normal corporate actions, such as mergers and acquisitions. From January 1, 2000 to December 31, 2005, approximately 27% of the 984 delistings from the NYSE resulted from the failure by the delisted company to maintain the minimum financial criteria required for continued listing on the NYSE. Over this period, new listings on the NYSE have kept the NYSE's overall number of listed companies at a relatively constant level.

Client Service

The NYSE has a team of professionals dedicated to serving the needs of its listed company community. These "client service managers" meet with their assigned listed companies individually and in regional executive forums that are scheduled by the NYSE. They provide value by keeping issuers aware of market trends, market structure initiatives and developments in governance and regulation. The NYSE believes that executives of listed companies place a high value on their relationship with their client service manager and on superior market quality, association with leading brands, global visibility, and unique marketing services that the NYSE provides. Client retention is consistently very high (*i.e.*, greater than 99.9%).

We offer a variety of services to our listed companies, including the ability to leverage the NYSE brand in reaching out to existing and prospective investors. We sponsor virtual forums, as well as domestic and international conferences, to provide issuers access to global institutional investors. NYSEnet, a password-protected website for senior executives, provides data relating to proprietary trading, institutional ownership and market activity. The NYSE has also developed eGovDirect.com for use by listed companies, which is an interactive, web-based tool that helps listed companies meet their NYSE governance and compliance requirements efficiently and economically; as of year-end 2005, nearly 1,100 NYSE-listed companies were registered for access to this site. In addition, the NYSE believes that its executive education programs and the opportunities they offer to network with policy makers and fellow corporate executives are highly valued by the leaders of NYSE-listed companies. Moreover, the NYSE uses a range of advertising media, including print and radio, among others, to promote its listed companies through a variety of ongoing campaigns.

Order Execution Business

The NYSE is a marketplace where investors meet directly to buy and sell listed companies' common stock and other securities. One of the NYSE's primary functions is to ensure that orders to purchase and sell these securities are conducted in a reliable, orderly, liquid and efficient manner. Order execution on the NYSE occurs through a variety of means, and the NYSE seeks to continue to develop additional and more efficient mechanisms of trade.

Order Execution

Auction Market. One of the primary means for order execution is through the NYSE's auction market, in which orders are electronically transmitted for execution. Specialists at various locations on the trading floor are charged with maintaining fair, orderly and continuous trading markets by bringing buyers and sellers together and, in the relative absence of orders to buy or sell their assigned stock, adding liquidity by buying and selling the assigned stock for their own account. Floor brokers act as agents on the trading floor to handle institutional orders.

Electronic Trading. Order execution also occurs through the NYSE's electronic platform, NYSE Direct+®, which represented approximately 11.4% of the NYSE's total share volume for the year ended December 31, 2005. NYSE Direct+® is an automatic-execution service for limit orders of up to 1,099 shares and enables users to elect immediate execution at the best bid or offer, without a fee and with anonymity and speed.

NYSE Hybrid MarketSM. We are implementing the NYSE Hybrid MarketSM in order to combine the advantages of our agency auction trading model and those of electronic trading. We believe that the NYSE Hybrid MarketSM will enhance the NYSE's ability to meet the diverse and changing needs of customers by providing them greater choice while enhancing our existing execution platforms. The NYSE Hybrid MarketSM will offer the speed, certainty and anonymity of electronic trading, as well as the opportunity for negotiation and price improvement provided by an auction market. All customers, regardless of size, will have ready access to multiple choices to route their orders to the NYSE's central market. For a more detailed discussion of the NYSE Hybrid MarketSM, see "Business Information About the NYSE The NYSE Hybrid Market Initiative."

Products Traded

Equity Securities. The NYSE is the world's largest cash equities market, both in terms of average daily trading volume and in the market capitalization of its listed companies. In January and February 2006, on an average day, over 1.8 billion shares, valued at over \$69 billion, were traded on the NYSE, and the NYSE is approximately three times the size of the next largest cash equities market in the world in terms of market capitalization of domestic listed companies. For the year ended December 31, 2005 the NYSE executed 78.6% of the share volume of NYSE-listed securities during the NYSE's trading hours of 9:30am to 4:00pm.

Bonds. The NYSE also operates the largest centralized bond market of any U.S. exchange or other self-regulatory organization. A broad selection of bonds is traded on the NYSE, such as corporate (including convertibles), agency and government bonds. The trading volume of bonds on the NYSE is primarily in corporate bonds, with approximately 94% of this volume in non-convertible bonds. Bonds trade on the NYSE through the NYSE's Automated Bond System® ("ABS"), a screen-based system used by NYSE member organization subscribers. ABS maintains and displays priced bond orders and matches those orders on a strict price and time-priority basis. It also reports real-time quotes and trades to market data vendors. We are actively developing applications to leverage NYSE Arca's core technology to upgrade our current bond trading platform, which was initially developed in 1977.

Others. In addition to cash equities and bonds, as of December 31, 2005, the NYSE also listed 484 closed-end funds and over 600 structured products designed to offer investors unique risk/return characteristics.

Trading Fees

Trading fees are paid by member organizations based on trades executed at the NYSE. Fees are assessed on a per share basis for trading in equity securities. The fee amounts vary, based on the size and type of trade that is consummated. There is no fee for small electronic trades. All member organizations pay trading fees, except "\$2 brokers" (who, by definition, effect transactions only for other member organizations) and specialists (who pay trading fees for ETFs). There are two caps, the lower of which applies to the net trading fees that member organizations must pay. The first cap is a fixed dollar amount maximum of \$600,000 per month. The second is a variable cap that is equal to 2% of the net commissions that a member organization earns on the trades that it executes on the trading floor. These pricing structures are currently undergoing a fundamental examination as part of a broad strategic review of opportunities for revenue growth and efficiency improvement and to better align transaction revenue with executed volume, product expansion and new product development. Trading fees accounted for approximately 13.0% of the NYSE's total revenues, net of Section 31 fees, in 2005.

Market Data Business

The NYSE collects and distributes market data, including real-time information relating to securities quotations, limit orders and the prices at which securities transactions take place. The broad distribution of accurate and reliable real-time market data is essential to the proper functioning of any securities market

because it enables market professionals and investors to make trading decisions. We believe that the quality of the NYSE's market data, and the ability of traders to act on that data, attract order flow to the NYSE for execution and reinforce the NYSE brand. The pricing for market data products must be approved by the SEC on the basis of whether prices are fair, reasonable and not unreasonably discriminatory. For a discussion of recent regulatory changes affecting market data, see "Regulation Recent Regulatory Developments."

The collection and distribution of market data accounted for 15.9% of the NYSE's total revenues, net of Section 31 fees, in 2005.

The NYSE's market data activity is divided into two parts: consolidated data services and NYSE proprietary data products.

Consolidated Data Services

The SEC requires securities markets to consolidate their bids, offers and last sale prices for each security, and provide the public with an integrated source of this information. The NYSE works with other markets to make this market data available on a consolidated basis on what is often referred to as the "consolidated tape." This intermarket cooperative effort provides the investing public with the reported transaction prices and the best bid and offer for each security, regardless of the market to which a quote or trade is reported or on which a trade takes place.

The SEC regulates the conduct of this intermarket activity under Rule 608 of Regulation NMS. The relationships among the markets that participate with the NYSE in the data joint ventures are defined in two securities industry plans the CTA Plan and the CQ Plan. Last sale prices for NYSE-listed securities are disseminated pursuant to the CTA Plan and quotes for NYSE-listed securities are disseminated pursuant to the CQ Plan. The network through which last sale prices and quotes in NYSE-listed securities are disseminated under the two plans is commonly referred to as "Network A."

The terms of the CTA Plan and the CQ Plan provide that the participating markets will distribute market data by means of two networks, Network A (through which data relating to NYSE-listed securities are disseminated) and Network B (through which data related to AMEX-listed securities and certain securities that are listed on other national securities exchanges are disseminated). The two plans currently require that the participating markets allocate the revenues that each network's market data distribution generates (net of joint processing and administration costs) on the basis of their respective number of trades. Under the market data rule of Regulation NMS, revenue will be allocated to market centers based, among other things, on the value of the quotes and trades for all securities. Compliance with the market data rule of Regulation NMS will begin on September 1, 2006. For a description of Regulation NMS and the market data rule, see "Regulation Recent Regulatory Developments Regulation NMS."

The other markets that participate in Network A have delegated to the NYSE the responsibility for acting as the Network A administrator. In this capacity, the NYSE recommends Network A operational decisions, bills Network A data recipients for applicable charges, collects those amounts, and administers Network A contracts. The NYSE also oversees the preparation of Network A financial statements, maintains all Network A records and maintains relationships with Network A data recipients. The NYSE recoups the costs of administering Network A. In 2005, the NYSE's share of Network A trades was approximately 87.5%.

Network A data is widely available. More than 400,000 devices displaying real-time data were used by broker-dealers, institutional investors and other industry professionals received real-time Network A data as of the end of 2005, as did more than 12 million nonprofessional investors. Investors are able to receive real-time Network A data through a variety of sources, including personal computers, telephones, televisions and PDAs.

Approximately 72% of Network A revenues derive from a monthly securities professional device fee paid by broker-dealers and other market professionals for each device through which they receive Network A data. Other sources of Network A revenues include:

access fees paid by vendors and others who receive access to high speed streams of Network A data;

computer program classification fees paid by data recipients who use real-time Network A data for purposes other than interrogation and display (such as to create stock tables for newspapers and to perform computer tracking of price movements);

nonprofessional subscriber and usage-based fees paid by vendors and broker-dealers that provide real-time Network A data to nonprofessional retail investors; and

fees paid by cable television stations that display real-time last sale prices.

SIAC serves as the data collector, processor and distribution point for Network A and other data joint ventures. Each market provides its quotes and trade reports and related information to SIAC. SIAC sequences, stores and validates the markets' data and makes the resultant streams of consolidated last sale prices and bid/ask quotations available to vendors and others. Vendors, in turn, provide that market data to broker-dealers, mutual and hedge funds, investment advisors, other market professionals and individual investors.

NYSE Proprietary Data Products

The NYSE also makes certain market data available independently of other markets. The NYSE packages this market data as:

trading products (such as NYSE OpenBook®, through which the NYSE makes available all limit orders); and

analytic products (such as TAQ Data, NYSE Broker Volume and a variety of other databases that are made available other than in real-time and that are generally used by analytic traders, researchers and academics).

These products are proprietary to the NYSE, and the NYSE does not share the revenues that it generates from these products with other markets. The pricing for proprietary products must be approved by the SEC.

Over the past two decades, the NYSE has expanded its market data business by tapping new markets, in particular nonprofessional subscribers, the cable television audience and customers interested in the NYSE's proprietary data products. Revenues for NYSE proprietary data products have grown significantly over the last few years, fueled in large part by the success of NYSE OpenBook®, which the NYSE introduced in 2002. The advent of trading in penny increments and the accelerated use of "black box" trading tools accelerated the success of NYSE OpenBook®.

Facilities and Equipment

The NYSE operates approximately 46,000 square feet of contiguous trading floor space where specialists, floor brokers, and clerks engage in the purchase and sale of securities. As of February 14, 2006, there were 403 specialists, 821 floor brokers and 2,310 clerks conducting business on the NYSE's trading floor. The NYSE derives revenues from these specialists, brokers and clerks by providing them with various products and services, including space, necessary for them to engage in the purchase and sale of securities on the trading floor.

Until recently, the NYSE charged each specialist firm for both the number of post spaces occupied on the trading floor, and for each registered specialist. However, as of January 1, 2006, the NYSE introduced a new pricing structure to replace several fees that had been previously charged by the NYSE to specialists. Under this new structure, referred to as the "Specialist Trading Privilege Fee," specialists are charged an

annual fee per symbol traded on the NYSE, and this fee is determined based on the consolidated average daily dollar volume of each particular symbol traded by the specialists. The NYSE charges floor brokers for each booth occupied on the trading floor, and rates vary depending on the location of the particular booth. Specialists and floor brokers also pay an annual fee for each of their clerks working on the trading floor. Fees are also charged to trading floor participants for a variety of services provided by the NYSE including NYSE e-Broker handheld devices, phone service, radio paging and connections to third-party market data providers.

Facility and equipment fees accounted for 4.4% of the NYSE's total revenues, net of Section 31 fees, in 2005.

Data Processing Fees

For a description of data processing fees, see "Securities Industry Automation Corporation" section below.

Securities Industry Automation Corporation

Overview

SIAC is the principal vendor of the NYSE's data processing and software development services and a registered securities information processor under the Exchange Act. The NYSE owns two-thirds of the equity of SIAC, and AMEX owns the remaining one-third. Formed in 1972 as a New York business corporation, SIAC:

plans, develops, implements and operates a variety of automated information-handling and communication systems that support order processing, trading, and market data reporting, as well as trade comparison, for a broad range of securities;

provides systems support for essential regulatory and administrative activities; and

operates and manages the SFTISM network, which provides resilient and reliable communications within the financial services industry.

Historically, SIAC has been operated as a cost-recovery utility. As a result, it provides its services to its customers on an at-cost, non-profit basis. SIAC's contribution to NYSE revenues, net of Section 31 fees, accounted for 16.3% of the NYSE's total revenue in 2005.

SIAC's wholly owned for-profit subsidiary, Sector, Inc., offers an array of communications and data processing services, primarily to the broker-dealer community. These services include email archiving, other books and record storage solutions, facilities management, data center hosting, disaster recovery, enterprise services and network and data distribution services. The telecommunications services include traditional point-to-point voice circuits and network management. Sector is headquartered in New York City.

SIAC Governance

The SIAC bylaws provide that the SIAC board of directors shall consist of 14 directors. Under a shareholders' agreement among SIAC, the NYSE and AMEX, of these 14 directors:

seven directors are selected by the NYSE (provided that at least five of these seven directors are not officers or employees of the NYSE unless they are also members of the NYSE board of directors);

three directors are selected by AMEX (provided that at least one of these three directors is not an officer or employee of AMEX);

one director is jointly selected by the NYSE and AMEX (it is contemplated that this director will also serve as the chief executive officer of SIAC); and

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three directors are selected by the Securities Industry Association.

The directors are divided into two classes, designated as Class A directors and Class B directors. Each class of directors is elected for a two-year term so that the term of office of one class of directors expires each year. John A. Thain, who is our chief executive officer and one of our directors, is chairman of the SIAC board of directors.

The SIAC board of directors has two standing committees: the executive committee and the audit committee. The executive committee is comprised of five members of the SIAC board of directors. The executive committee's responsibilities include:

reviewing the management personnel needs, structure and policies of SIAC;

reviewing the current and anticipated financial requirements of SIAC; and

functioning as SIAC's compensation committee for the purpose of reviewing and approving the compensation plans and guidelines for all employees and the officers of SIAC.

The audit committee is comprised of three members of the SIAC board of directors. Its responsibilities are to assist the SIAC board of directors in fulfilling its financial accounting oversight responsibilities. In this capacity, the audit committee reviews the financial reporting process, the system of internal controls and the process by which SIAC maintains compliance with applicable laws, rules and regulations.

The NYSE, AMEX and SIAC are parties to a shareholders agreement that governs the respective rights of the NYSE and AMEX relating to SIAC. Under the shareholders agreement, neither the NYSE nor AMEX may transfer any of their shares in SIAC to a third party without the consent of the other party, unless this transfer occurs:

by operation of law, by reason of insolvency or other cause; or

upon completion of a right-of-first-refusal process, in which the other party has the right to acquire any SIAC shares proposed to be transferred by either the NYSE or AMEX to a third party at the lower of:

the price offered by the third party seeking to acquire such SIAC shares; or

the "option price" agreed upon by the NYSE and AMEX from time to time or established by a five-person committee consisting of two representatives appointed by each of the NYSE and AMEX and one person appointed by the four members. (There is currently no determined option price.)

Major Customers

SIAC currently provides data processing services to the following major customers and customer groups:

the NYSE, which was the source of 58% of SIAC's revenues in 2005;

AMEX, which was the source of 16.4% of SIAC's revenues in 2005; and

the National Securities Clearing Corporation and Fixed Income Clearing Corporation, which have been absorbed into The Depository Trust & Clearing Corporation and together were the source of 9.1% of SIAC's revenues in 2005.

In addition, SIAC operates the Intermarket Trading Systems and provides services to the Intermarket Surveillance Group Participants, the CTA Plan and CQ Plan and the Options Price Reporting Authority. SIAC also provides services to Sector.

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The NYSE and AMEX are SIAC's largest customers. The removal of the business of either could have a material adverse effect on SIAC. The National Securities Clearing Corporation and Fixed Income Clearing Corporation have entered into separate agreements with SIAC, pursuant to which the services

previously provided by SIAC are being phased out. In addition, AMEX has sent a notice to SIAC indicating that it intends to materially decrease its use of SIAC's services. If AMEX materially decreases its use of SIAC's services, SIAC's revenues will be adversely affected. To the extent that AMEX does not bear a portion of the costs associated with this decrease (including transition costs and an appropriate share of SIAC's current overhead as SIAC seeks to mitigate the overhead costs), or to the extent that the NYSE is not able to reduce its costs associated with SIAC to offset the amount of reduction in revenue from SIAC (which it may not be able to do), the NYSE's profits and results of operations may be adversely affected. See also "Risk Factors Risks Relating to Our Business Our revenues from SIAC could significantly decrease if SIAC loses its major customers."

Facilities Management Agreement

SIAC provides services to the NYSE and AMEX pursuant to an agreement dated February 23, 1977, among the NYSE, AMEX and SIAC, as amended, and a Paying Agency Agreement dated August 23, 2004 (which we refer to collectively as the "facilities management agreement"). The facilities management agreement provides for services to be provided and products to be obtained by SIAC on behalf of or for use by the NYSE or AMEX, as either may request, at SIAC's cost. The facilities management agreement also provides that the NYSE or AMEX may request that the services to be provided to it be added to, modified or terminated, and that SIAC will "use its best efforts, consistent with sound business practices, to adapt to the changed requirements of each exchange for services rendered by SIAC."

Generally, the at-cost basis for service charges under the facilities management agreement includes dedicated manpower (such as salaries, overtime, part-time help and benefits); dedicated data processing or communications supplies and equipment; dedicated general expenses (such as office supplies, photocopy equipment, local transportation and travel); and shared common expenses (such as occupancy costs, facilities engineering support, security services and other non-dedicated manpower and related expenses, etc.), as well as any costs for products or services from third-party vendors. Costs are billed to the NYSE (and AMEX) on a monthly basis.

The facilities management agreement requires SIAC to recognize individual ownership rights on the part of the NYSE or AMEX of properties acquired by SIAC at the respective direction and expense of the NYSE and AMEX and joint ownership rights on the part of the NYSE and AMEX of properties acquired by SIAC for services provided to both the NYSE and AMEX. The agreement requires SIAC to maintain confidentiality regarding services it undertakes for each of the NYSE and AMEX and with regard to certain information obtained by SIAC in connection with the provision of services.

During the NYSE's last five fiscal years, the NYSE paid SIAC fees under the facilities management agreement of approximately \$256.9 million in 2001; \$273.3 million in 2002; \$253.0 million in 2003; \$266.1 million in 2004; and \$252.8 million in 2005. AMEX paid SIAC fees under the facilities management agreement of approximately \$104.9 million in 2001; \$97.1 million in 2002; \$93.9 million in 2003; \$79.5 million in 2004; and \$71.4 million in 2005.

Separate services agreements cover services provided by SIAC to National Securities Clearing Corporation and Fixed Income Clearing Corporation, to Options Price Reporting Authority and to the participants in the CTA Plan and the CQ Plan.

The NYSE Hybrid MarketSM Initiative

We are creating the NYSE Hybrid MarketSM, which will combine auction-based and electronic trading for equities listed on the NYSE. This initiative is our response to the request from both market professionals and individual investors for greater choice and flexibility in buying and selling stocks on the NYSE. The NYSE Hybrid MarketSM is also our strategy for adapting to the revised "trade through" rule adopted by the SEC on April 6, 2005 as a part of Regulation NMS, which prohibits trading-through of quotations that are displayed by another market and immediately accessible through automatic execution.

The NYSE Hybrid MarketSM is intended to emulate, in a primarily automatic-execution environment, the features of the traditional auction market that have provided stable, liquid and less volatile markets, as well the opportunity for price improvement. The NYSE Hybrid MarketSM will expand the availability of the NYSE's current automatic execution service (NYSE Direct+®), which provides order execution at sub-second speed and for the year ended December 31, 2005 handled approximately 11.4% of the NYSE's average daily share volume. The NYSE Hybrid MarketSM is intended to feature the following:

All quotes will be automatically and continuously refreshed and reflect the combined liquidity of the NYSE Display Book® and the electronic interest of trading floor broker agents and the specialist. Limit orders will be published in real time. This structure will facilitate the ability of brokers and specialists to interact with supply and demand and to scale interest and provide price improvement to incoming electronic orders seeking liquidity.

Customers will have the choice of auction representation and the opportunity for price improvement over the published best bid and offer. The NYSE's auction model currently provides price improvement for more than 25% of incoming orders, most obtaining improvement better than the midpoint of the quote spread.

Specialists and floor brokers will supplement liquidity to stabilize price movements in both the automated and auction components of the NYSE Hybrid MarketSM through the use of floor broker agency interest files, and specialist layered interest files and specialist algorithmic interaction with orders. As such, both electronically and manually executed orders may benefit from the value added by specialists in committing capital and providing depth to the market, and from the competition among electronic orders as well as those represented by floor brokers. Floor brokers will participate both electronically and in person, using human judgment to process large or complex orders more effectively than is possible on a solely electronic platform.

Time restrictions between orders on NYSE Direct+® will be eliminated and all size limit and market orders will be accepted up to the maximum supported order size, which is currently 3,000,000 shares.

Those customers that desire sub-second, automatic trade execution will have access to floor liquidity. Customers with buy and sell orders beyond the size of the best bid or offer will have the ability to "sweep the book" or designate individual orders to trade at multiple price points subject to certain limitations, including the Liquidity Replenishment PointsSM or "LRPs" described below.

In order to preserve the lower volatility that has characterized trading on the NYSE, pre-determined and published LRPs will limit sweeps. When activated, LRPs automatically will integrate the electronic market with the auction market for one transaction, thus enabling the specialist to elicit additional trading interest.

All better-priced top-of-book bids and offers in all other markets will be immediately accessed unless customers are provided the same price on the NYSE. All incoming orders from all competing market centers will be automatically executed at the displayed best price. This will create an environment in which best prices will be protected from inferior-priced trade executions regardless of where an order is entered, and without awaiting human reaction.

As part of the NYSE Hybrid MarketSM initiative, the NYSE will further automate routine specialist tasks and create a new interface to facilitate algorithmic liquidity injection by specialists. In addition, the NYSE will add new functionality to trading floor broker wireless hand-held computers to further automate smart order types and create a new broker interest file with layering capabilities.

The NYSE Hybrid MarketSM will build on the NYSE's core attributes of liquidity, pricing efficiency, low trading costs and tight spreads by broadening customers' ability to trade quickly and anonymously. The NYSE Hybrid MarketSM will also further the NYSE's goal of providing all investors, regardless of their

size, with the best price when buying or selling shares. Interaction of the NYSE's automatic and auction markets also would maintain the opportunity for price improvement.

By continuing to maintain market quality, including lower intra-day volatility, the NYSE Hybrid MarketSM will also allow issuers to reduce their cost of capital. Combining the NYSE's technology with the advantages of the auction market would enable the NYSE market to function more effectively and efficiently. In the NYSE Hybrid MarketSM, specialists and brokers, who will use judgment to improve prices and enhance order competition on the floor of the NYSE, will interact with the market electronically as well as vocally and manually. We believe that their judgment will be particularly valuable in less liquid stocks and during the opening and closing of trading as well as during times of uncertainty, when a corporate announcement or an outside event could lead to market instability and price volatility.

Implementation of the NYSE Hybrid MarketSM is subject to SEC review and approval. No assurance can be given that this approval will be obtained. On June 14, 2005, the NYSE filed with the SEC amendments to clarify and modify its proposal to establish the NYSE Hybrid MarketSM. On June 29, 2005, the SEC published the amended proposal for public comment and has since received several comments. The NYSE subsequently filed several amendments in this regard.

The NYSE is developing the software that will power the NYSE Hybrid MarketSM. In December 2005, the NYSE initiated the first phase of a pilot to test selected features and functionality of the NYSE Hybrid MarketSM among a limited number of securities approved by the SEC. As of March 3, 2006, 147 securities listed on the NYSE were activated for inclusion in this phase of the pilot. To date, NYSE Hybrid MarketSM software is functioning as expected, and all features are being actively exercised by trading floor professionals.

NYSE Membership Organizations

NYSE member organizations are comprised of (1) entities who obtain trading licenses in accordance with the rules and regulations of the NYSE (including the rules of eligibility that will apply to those who wish to be a member organization); and (2) broker-dealers who agree to submit to the jurisdiction and regulations of the NYSE without obtaining a trading license. As member organizations, they are subject to the rules and policies of the NYSE. In the future we may decide to offer member status to other types of organizations, for example, if we decide to issue separate licenses for electronic access or access for particular products.

NYSE Trading Licenses

Physical and electronic access to the trading facilities of the NYSE, subject to such limitations and requirements as may be specified in the rules of the NYSE, are available only to member organizations that have purchased a trading license from us. These trading licenses have the following attributes:

Duration and Pricing. The price of trading licenses is determined through a modified Dutch auction process once per year. The clearing price at which all licenses are sold in the auction is determined under procedures calculated to provide suitable revenue to NYSE Market while providing fair access to its facilities to member organizations that wish to do business there. On January 4, 2006, based on this modified Dutch auction process, the NYSE sold 1,274 trading licenses at an annual price of \$49,290 per license. The NYSE has made a total of 1,366 trading licenses available for purchase during 2006, the remainder of which can be purchased, subject to the approval of NYSE Regulation, for a premium of 10% to the auction price. Except for these initial trading licenses, which will be valid from March 7, 2006 through the end of 2006, each trading license will be valid for one calendar year.

Availability. We expect that the number of trading licenses that will be outstanding (as well as the price for these licenses) will be determined through a modified Dutch auction on an annual basis. We also have the right to sell additional trading licenses during the year at a price greater than the

auction price, in order to, among other things, ensure that the supply of trading licenses is adequate to meet demand for the trading licenses should conditions change after the auction and to accommodate new businesses that commence operations after the beginning of the year. Holders of trading licenses have the right to cancel their trading license prior to the end of the year, subject to paying NYSE Market an early termination penalty. A maximum of 1,366 trading licenses are made available at any one time.

Approval of NYSE Regulation. Any bidder for a trading license is subject to the approval of NYSE Regulation.

We have not determined whether we will issue separate licenses for access for particular products.

Information About NYSE Arca

Overview

We also operate NYSE Arca, formerly known as the Archipelago Exchange or ArcaEx® and the Pacific Exchange. NYSE Arca is the first open, all-electronic stock market in the United States for trading equity securities listed on the NYSE Arca, the NYSE, Nasdaq and AMEX, as well as ETFs and other exchange-listed securities. NYSE Arca is also an exchange for trading equity options, and operates the facilities, technology and systems required for the operation of marketplaces for trading equity securities and options. Through NYSE Arca, customers can trade over 8,000 equity securities and over 175,000 option products.

NYSE Arca's trading platforms link traders to multiple U.S. market centers and provide customers with fast electronic execution and open, direct and anonymous market access. The technological capabilities of NYSE Arca's trading systems combined with its trading rules have allowed NYSE Arca to create a large pool of liquidity that is available to customers internally on NYSE Arca and externally through other market centers. On an average day, over 700 million securities, valued at over \$25 billion, are traded through NYSE Arca's trading platforms.

NYSE Arca generated approximately \$493.4 million in total revenues, net of Section 31 fees, in 2005. Approximately 99% of these revenues consisted of transaction fees and market data fees generated by securities transactions executed on or through its trading platforms.

Equities Trading Platforms and Services

NYSE Arca operates two all-electronic equity securities trading systems, one for trading NYSE-, Nasdaq- and AMEX-listed securities, and another for trading over-the-counter equity securities. These markets offer a variety of execution-related services, including our "best execution routing" capability and routing services through the NYSE's DOT system. NYSE Arca's systems operate on three simple but fundamental principles: fast electronic execution, transparency and open market access. On NYSE Arca, buyers and sellers meet directly in an electronic environment governed by trading rules designed to reflect these three fundamental principles.

The rules governing trading on NYSE Arca require execution of orders, without discretion, in accordance with the principles of openness, fairness and equal access. These trading rules are predicated on "price-time priority" within NYSE Arca, which requires execution of orders at the best available price and, if orders are posted at the same price, based on the time the order is entered on our trading system. NYSE Arca's electronic matching and routing systems actively searches across multiple market centers and either matches orders internally or by routing orders out to the best bid or offer displayed in the market using our "best execution routing" capability. The technological capabilities of NYSE Arca's trading systems, together with our trading rules, have allowed us to create a large pool of liquidity available to our customers internally on NYSE Arca or externally through other markets.

On NYSE Arca, buyers and sellers can view our open limit order book, which displays orders simultaneously to both the buyer and the seller. Buyers and sellers also can submit these orders on an anonymous basis if they so choose. Once orders are submitted, all trades are executed in the manner designated by the party entering the order, which is often at prices equal to or better than the national best bid or offer. The national best bid or offer is the highest bid or lowest offer quote reported to the Consolidated Quote and Nasdaq pursuant to the quotation and transactions reporting plans. See "Industry Overview." Buy orders and sell orders are posted on NYSE Arca in price order (best to worst) and then if prices are the same, they are ordered based on the time the buy order or sell order was posted (earliest to latest). NYSE Arca users may choose to have their unexecuted orders left on our open order book, returned to them, or routed to other markets using our "best execution routing" capability.

We refer to permitted users of NYSE Arca's equity trading systems as "equity trading permit holders". Any registered broker-dealer who wishes to trade on NYSE Arca's equity trading systems may obtain an equity trading permit from NYSE Arca.

During 2005, NYSE Arca generated approximately \$415.4 million in revenues from equity securities transaction fees.

Equities Listing. NYSE Arca offers a listing venue for companies and index providers for their equity securities, exchange-traded funds and other structured products. In order to list on NYSE Arca, a company must meet quantitative and qualitative listing criteria (which differ from those applicable to NYSE-listed companies), including minimum market capitalization, net worth, number of shares outstanding and number of beneficial owners. In addition, listed companies must comply with corporate governance rules of NYSE Arca. Compliance with the listing standards is monitored and enforced by NYSE Regulation.

We plan to leverage the NYSE brand to continue to build NYSE Arca's growing listing business. We expect NYSE Arca's proposed listing standards will extend the NYSE's current focus on quality companies to growing companies that do not yet meet the NYSE's stringent listing standards. NYSE Arca's listing venue will provide issuers with many of the benefits that are provided to NYSE-listed companies, including an affiliation with one of the world's leading brands, exceptional market quality and a wide range of value added products and services. By leveraging the NYSE brand across two listings platforms, we believe we will be in an excellent position to serve a broader segment of corporate issuers.

As of December 31, 2005, there were approximately 194 companies and 4 index providers listed on NYSE Arca, spanning a broad range of industries, including many Fortune 500® companies. Of these companies, 10 were exclusively listed on NYSE Arca.

Options Trading Platform and Services

On September 26, 2005, Archipelago completed the acquisition of NYSE Arca Holdings, Inc. (formerly known as PCX Holdings, Inc.) and all of its wholly owned subsidiaries, including NYSE Arca, Inc. (formerly known as the Pacific Stock Exchange, Inc.) and NYSE Arca Equities, Inc. (formerly known as PCX Equities, Inc.). Through these entities, NYSE Arca operates a marketplace for trading options on exchange-listed securities. The underlying securities are listed and trade on NYSE Arca, the NYSE, AMEX and Nasdaq.

NYSE Arca's option market center includes the trading facilities, technology and systems for trading options as well as regulatory, surveillance and compliance services. It also provides listing services for options on stocks that meet certain minimum criteria. NYSE Arca's options business trades approximately 500,000 contracts each day on more than 1,700 stocks.

NYSE Arca's options business uses a technology platform and market structure that is designed to enhance the speed and quality of trade execution for its customers and to attract additional sources of liquidity by allowing market makers to have access to its markets remotely and by integrating floor-based participants and remote market makers. During 2006, we expect to introduce a new options trading platform based on the architecture of our equities trading platform. The revenue from NYSE Arca's options business is derived primarily from transaction execution services, market data services on a real-time or summary basis and providing a trading venue for issuers of options contracts.

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We refer to permitted users of NYSE Arca's options trading system as "options trading permit holders." Any registered broker-dealer who wishes to trade on NYSE Arca's options trading system may obtain an options trading permit from NYSE Arca.

During the fourth quarter of 2005, NYSE Arca generated approximately \$9.6 million in revenues from options transaction fees. For a discussion of selected transaction statistics for 2005, see "Selected Financial Data Selected Statistical Data of NYSE and NYSE Arca."

Options Listing. Under the rules of NYSE Arca, in order to list an option on a stock, there must be at least seven million shares of the underlying stock available for public trading, with at least 2,000 holders of the security. In addition, there must be active public trading in the underlying stock, and that stock must meet certain minimum price tests. These rules also include specialized criteria for listing options on certain types of securities, such as shares of index funds or exchange-traded funds, trust-issued receipts and American Depositary Receipts. Compliance with these rules and criteria are monitored and determined by the Pacific Exchange.

Options Products. Options contracts are contracts with standardized terms that give the buyer the right, but not the obligation, to buy or sell a particular stock or stock index at a fixed price (the strike price) for a specified period of time (until the expiration date). Options are used in various ways by a range of investors with different goals and strategies, such as protecting equities portfolios by using options as a hedge and buying puts as a protection against unexpected declines in price, or speculating on the direction of a stock price by purchasing puts or calls in anticipation of a stock's directional movement and hope of return on risk.

Options Clearing and Settlement. All options contracts traded on NYSE Arca's options exchange as well as other U.S. securities exchanges are issued and cleared by The Options Clearing Corporation (referred to in this prospectus as the OCC), a clearing corporation registered with the SEC and owned by member options exchanges, including NYSE Arca. The OCC, which issues and clears all U.S-listed options, as well as certain futures and options on futures on a number of underlying financial assets, including common stocks, currencies, stock indices and interest rate composites, is among the world's largest clearing organizations for options and equity derivatives.

Market Data Products

NYSE Arca offers customers market data products on a real-time and on a summary basis. NYSE Arca's market data products are designed to improve trade execution and enhance understanding of market dynamics. Customers can view in real time the bids and offers posted on NYSE Arca and can access other extensive market and trading data through our website which includes ArcaVision.

Real-Time Data Feeds and Market Data Fees. NYSE Arca participates in the national market system for the consolidation, dissemination and sale of market data in U.S. exchange-listed securities. NYSE Arca earns market data fees, based on the level of trading activity on NYSE Arca, by providing its data to the centralized aggregators of this information that in turn sell the data to third-party consumers such as Thomson Financial Inc. and Bloomberg, L.P. During 2005, Archipelago generated approximately \$62.0 million in revenues from market data fees

ArcaVision. ArcaVision offers analytic tools that go beyond the traditional trading data that is available to customers. NYSE Arca developed ArcaVision in response to customer demand for increasingly detailed analyses of trading patterns, and it is designed to provide customers with critical market data on particular stocks. The ArcaVision website is available to issuers listed on NYSE Arca, customers executing trades on NYSE Arca, and the general public. ArcaVision's sophisticated system enables NYSE Arca to customize the views available to each user to meet their specific needs.

ArcaEx Tech 100 Index

The ArcaEx Tech 100 Index (which we intend to rename as the NYSE Arca Tech 100 Index) is a price-weighted, broad-based index. Comprised of 100 listed and over-the-counter stocks from 14 different industries including computer hardware, software, semiconductors, telecommunications, data storage and processing, electronics and biotechnology, the ArcaEx Tech 100 Index is a tech sector equivalent of the Dow Jones Industrial Average and is a market indicator used by mutual fund rating services, analysts, asset managers and private investors to gauge the overall performance of the technology sector of the U.S. equity market. NYSE Arca owns and maintains the ArcaEx Tech 100 Index through its wholly owned subsidiary, NYSE Arca, Inc.

Business Developments

Bond Trading Platform. On November 7, 2005, NYSE Arca filed a proposal with the SEC which is pending to launch a corporate bond trading platform. However, as a result of the merger, the NYSE and NYSE Arca are developing a single bond trading platform based on NYSE Arca's core technology platform and the NYSE's ABS system. Please refer to the section "US Fixed Income Markets" for additional information.

Tech 100 Index and ETF. On November 2, 2005, we announced that, in conjunction with Ziegler Capital Management LLC, we had filed documents with the SEC to create a new technology exchange traded fund named the ArcaEx Tech 100 ("ArcaETF") which is expected to launch in 2006 under the ticker AXT, and will be listed and traded exclusively on NYSE Arca. The ArcaETF will be benchmarked to the ArcaEx Tech 100(SM) Index, formerly the PSE Tech 100 Index. The ArcaEx Tech 100 Index has been in existence since 1982, and is comprised of 100 listed and over-the-counter securities, including computer hardware, software, semiconductors, telecommunications, data storage and processing, electronics and biotechnology.

Restrictions on Business Activity. On September 26, 2005, NYSE Arca completed the acquisition of PCX Holdings, Inc. (which is now referred to as NYSE Arca) and all of its wholly owned subsidiaries, including the Pacific Stock Exchange, Inc. (which is now referred to as NYSE Arca, Inc.) and PCX Equities, Inc. (which is now referred to as NYSE Arca Equities, Inc.). Upon completion of that transaction, NYSE Arca's continued ownership of certain of its registered broker-dealer subsidiaries and subsidiaries that hold exchange trading permits would have caused NYSE Arca to exceed certain ownership and voting limitations to which it was subject, absent specific approvals from the SEC. Consequently, the SEC approved a rule proposal that limits the conduct of NYSE Arca's business following the acquisition the main terms of which are described below:

Divestiture of Wave Securities. NYSE Arca was permitted to own and operate its wholly owned subsidiary Wave Securities, L.L.C., a registered broker-dealer, only until the closing of Archipelago's merger with NYSE. On March 3, 2006, NYSE Arca completed the sale of Wave Securities to Merrill Lynch & Co. Wave Securities offered agency brokerage services to institutional customers seeking to gain access to NYSE Arca and other market centers electronically.

Outbound Router Function. Archipelago Securities, LLC, one of our wholly owned subsidiaries, is a registered broker-dealer, a member of the NASD, and an exchange trading permit holder. Archipelago Securities currently provides an optional routing service for NYSE Arca to route orders to other market centers from NYSE Arca (we refer to this service as the "Outbound Router function"). The SEC approved Archipelago Securities to be a facility of NYSE Arca, subject to certain conditions, including that Archipelago Securities will not engage in any business other than its Outbound Router function (including, in that function, the self-clearing functions that it currently performs for trades with respect to orders routed to other market centers).

Inbound Router Function. Archipelago Trading Services, Inc., one of our wholly owned subsidiaries, is also a registered broker-dealer and a member of the NASD. Archipelago Trading

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acts as an introducing broker for non-ETP Holder broker-dealer customers for securities traded on NYSE Arca (we refer to this service as the "Inbound Router function"). The SEC granted temporary approval until the closing of the merger of the NYSE and Archipelago for us to continue to own and operate the Inbound Router function of Archipelago Trading. NYSE Arca sold Archipelago Brokerage Services, L.L.C., a wholly owned subsidiary which will operate the inbound routing executive services formerly executed by Archipelago Trading and certain Wave customer accounts, to Order Execution Services Holdings, Inc. on March 2, 2006.

Terra Nova. The SEC has also granted a temporary exception until March 31, 2006 for Gerald D. Putnam, our president and co-chief operating officer, to continue to indirectly beneficially own, through TAL Financial Services, LLC ("TFS"), in excess of 5% of Terra Nova Trading, L.L.C. ("TNT"), a registered broker-dealer, a member of the NASD, and an equities trading permit holder for trading on NYSE Arca, and to serve on the management committee of TFS, the owner of TNT.

Alternative Trading System. In addition to its Inbound Router function, Archipelago Trading Services operates an alternative trading system for trading in over-the-counter bulletin board securities (the "ATS OTC function"). The SEC approved a NYSE Arca rule proposal that permitted us to continue to own and operate the ATS OTC function of Archipelago Trading Services for a period of 60 days following the closing of the PCX Holdings acquisition. We intend to obtain permanent approval of the ATS OTC function.

Our Technology and Intellectual Property

Technology

The NYSE and NYSE Arca each employ a wide range of technologies which are crucial to our business. Technology enables us to maintain our competitive position and regulatory effectiveness and the confidence of our investors in the reliability and integrity of our trading platforms and markets. We are committed to the ongoing development, maintenance and use of technology and to providing our customers with technological solutions. Our technology is subject to oversight by the SEC, through the SEC's Automation Review Program.

In 2005, across all information technology categories inclusive of software development and network and data center infrastructure, the NYSE incurred, on an operating basis, information technology expense of approximately \$362 million and capital investments totaled approximately \$52 million.

Our technological initiatives are focused on satisfying each of the objectives set forth below:

Functionality our business-driven requirements should be delivered on time and with minimal defects;

Performance our systems should provide fast, competitive response times;

Capacity/Scalability our systems should be capable of supporting present needs and expanding to meet projected demands;

Reliability the availability and performance should satisfy our goals and objectives; and

Total cost of ownership our systems and operating environment should be managed with a competitive cost structure.

Our position in the capital markets requires substantial investments in business continuity, including back-up data centers, back-up trading floors and physical and information security. These investments have increased substantially following the terrorist attacks of September 11, 2001. Business drivers for our technology investments include:

continual functional and performance improvements to our execution services and information products to address customer needs and the evolving competitive trading environment;

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state of the art regulatory technology in support of market surveillance, member organization regulation and enforcement;

the expectations for excellent systems reliability and resiliency to maintain investor trust and confidence;

substantial investments in systems capacity to ensure that the market can maintain investor access to the market during very unusual peaks in trading activity; and

competitive cost structures for our systems and operating infrastructure.

Data Centers

To enhance the capacity and reliability of our systems, we have established data centers located in Chicago, Illinois, New York, New York, San Francisco, California, and Northern New Jersey totaling approximately 125,000 square feet in size. We help ensure the integrity of our data network through a variety of methods, including access restrictions and firewalls. We monitor traffic and components of our data network, and we use an application to detect network intrusions and monitor external traffic. Customer circuits and routers are monitored around the clock and anomalies in customer circuits are reported to our staff and carrier support personnel for resolution.

NYSE Trading Technology

The NYSE's trading systems include the following major components:

Display Book®, which is a high-performance trading system used for automatic quotation of incoming limit orders and the NYSE Direct+® automatic execution service. It also provides a set of tools that are used by specialists and their trading assistants to keep track of all incoming market and limit orders and provide information display, order management capabilities, research tools, trade execution, access to regional exchanges and quote dissemination;

NYSE Direct+®, which is an automatic-execution service for limit orders of up to 1,099 shares that enables users to opt for an immediate execution at the best bid or offer, without a fee and with anonymity and speed;

SuperDot®, which is a system that processes approximately 99% of electronic market and limit orders received from member organizations and routes them to broker systems or Display Book®;

Broker Booth Support System®, which is a full-service order management system supporting straight-through electronic order processing and reporting for member organizations on the floor of the NYSE;

Common Message Switch, which provides member organization access to the NYSE's order processing systems for routing and processing of orders that are destined for the Display Book® system or the Broker Booth Support System®;

NYSE e-Broker® Handheld Data Devices, which are mobile wireless handheld devices running the NYSE e-Broker application that permits member organizations on the floor to receive orders, access the Display Book®, report transactions on the floor, and generate messages to customers regarding current market conditions; and

SFTISM, a product of SIAC, which offers financial institutions a resilient connection to the NYSE through a diversified set of major telecommunications providers. SFTISM offers designated access points throughout the U.S. and through a highly resilient and redundant infrastructure that routes around failed circuits automatically. Network security is provided by a multi-tier security architecture known as NYSE Common Access Point®, which allows secure external access to all NYSE products and services.

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NYSE Arca Electronic Trading Technology

Trading Platform. NYSE Arca operates its electronic trading platform on mid-range Sun Microsystems servers. Our industry leading system is designed to accept up to 16,000 orders per second and to provide up to 1,000 simultaneous customer connections. During 2005, our system handled an average of approximately 38.1 million orders daily and 3.5 million trades daily, with a capacity to handle 20.0 million trades daily.

Connection Options. Customers can connect to NYSE Arca through a wide variety of order management systems, third party private networks and service bureaus.

Interface options. We offer our customers different ways of interfacing with NYSE Arca. These include FIX Gateway Interface and RealTick® Interface. Through the FIX Gateway, our customers can access NYSE Arca using their existing trading system and third party vendors. The Financial Information eXchange (FIX) protocol is a messaging standard developed specifically for real-time electronic exchange of securities trading information. NYSE Arca confirms a customer's FIX connectivity through NYSE Arca Certification Testing.

Intellectual Property

We own the rights to a large number of trademarks, service marks, domain names and trade names in the United States and in foreign countries. We have registered many of our most important trademarks in the United States and in foreign countries. These include "New York Stock Exchange," "NYSE," "The Big Board," "NYSE Composite Index," "The World Puts Its Stock In Us," "Archipelago," "ArcaEx," "Archipelago Exchange," "Pacific Exchange," and images of the NYSE Trading Floor and building façade. Registration applications for some of these marks are pending in the United States and in foreign countries.

In addition, we own a number of registered U.S. trademarks or service marks which are used in our operations. There are also a number of pending applications.

We hold the rights to a number of patents, and have made a number of patent applications. However, we do not engage in any material licensing of their patents nor are their patents, individually or in the aggregate, material to our business operations.

We own the copyright to a variety of material. Those copyrights, some of which are registered, include printed and onlin