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ARCHIPELAGO HOLDINGS INC
Form 425
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Subject Companies:

New York Stock Exchange, Inc.

Archipelago Holdings, Inc.

(Commission File No. 001-32274)

Date: August 15, 2005

On August 15, 2005, the New York Stock Exchange, Inc. (NYSE) issued the following press release:

Release: August 15, 2005
Contact: Rich Adamonis
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NYSE Announces Second-Quarter 2005 Financial Results

Net Income Increased 161.7% Over Year-Ago Quarter

NEW YORK, August 15, 2005 The New York Stock Exchange (NYSE) today reported net income of \$13.0 million for the quarter ended June 30, 2005, compared to \$5.0 million in the year-ago quarter and \$26.0 million for the first quarter of 2005. These results reflect the restatement of NYSE's financial earnings dating back to 2002 that were announced in the NYSE Group's draft S-4 Registration Statement filed with the SEC on July 21, 2005.

Year-Over-Year Financial Highlights

Revenues, less SEC activity remittance, for second-quarter 2005 were \$276.3 million, up \$4.3 million or 1.6% versus the second-quarter of 2004. Listing fee revenue was \$85.5 million, an increase of \$3.6 million or 4.4%, regulatory fees increased \$3.4 million or 11.7% to \$32.2 million and market information fees rose \$4.2 million or 10.0% to \$46.3 million. Regulatory fees increased as NYSE Member Firms reported higher Gross Focus Revenues for the period. Market information fees increased due to growth in NYSE's proprietary data products, professional subscribers and non-recurring revenues from previously uncollected charges. Declines in data-processing fees of \$5.7 million or 10.7% were the result of decreased third-party usage of services provided by SIAC.¹ Investment and other income was \$13.8 million, an increase of \$1.0 million versus the year-ago quarter. The increase in investment and other income was the result of a portfolio restructuring in December 2004 combined with a higher interest rate environment. These increases were somewhat reduced by non-recurring insurance claims received during second-quarter 2004.

Expenses were \$254.7 million, down 5.0% from second-quarter 2004. The decreases were led by reduced spending in general and administrative expenses, down \$4.5 million or 20%. In addition, professional services decreased by \$5.4 million or 13.2% due to reduced legal expenses as compared to second quarter 2004. Depreciation and amortization expenses increased by \$4.2 million, a 19.2% increase, to \$26.4 million due to the acceleration of certain useful lives following a fourth-quarter 2004 review of depreciation policies.

¹ SIAC operates on a cost-recovery model driven by its customers' demands. Under this model, any increases or decreases in SIAC's expenses result in a corresponding change in its revenue.

Quarter-Over-Quarter Financial Highlights

Compared to the first quarter of 2005, second quarter revenues, less SEC activity remittance, decreased 4.2% or \$12.2 million. Regulatory fees increased by \$3.1 million or 10.8%, data processing fees increased \$2.8 million or 6.3% and market information fees in the second quarter of 2005 were up by \$2.1 million or 4.8%. Declines in investments and other income of \$17.9 million or 56.4%, were largely due to the collection of a \$19.0 million regulatory fine and other non-recurring revenues during the first quarter of 2005.

Expenses increased by \$10.1 million or 4.1% quarter over quarter. Professional services and general and administrative costs were the main drivers of the increase. Professional services increased by \$7.6 million or 27.1% due to continuing initiatives across the organization, including those related to regulation and trading systems, as well as additional legal expenses incurred in the quarter. General and administrative expenses increased by \$2.9 million or 19.1% during the second quarter 2005 as compared to the first quarter.

Income Taxes

The effective income tax rate for the second quarter of 2005 was 34.3%, down from 42.8% for first-quarter 2005. The reduction in our effective tax rate for the second quarter is due to the increased impact of the tax-exempt interest on NYSE's income before taxes. For the second quarter of 2004, the NYSE had a tax benefit of \$1.2 million, a result of the receipt of non-taxable insurance recoveries.

Capital

As of June 30, 2005, total members' equity was \$802.9 million and equity per member having distributive rights equaled \$588,000.

About the NYSE

The New York Stock Exchange is the world's leading equities market and home to 2,780 companies whose total global market capitalization is \$19.9 trillion, including \$6.9 trillion for 449 non-U.S. companies from 47 countries. Buyers and sellers meet directly in a fair, open and orderly market to realize the best possible price through the interplay of supply and demand. On an average day, 1.60 billion shares, valued at \$55.0 billion, are traded on the NYSE. The NYSE provided the most competitive quotes in its listed stocks creating the National Best Bid and Offer more than 89% of the time. For more information please visit <http://www.nyse.com>.

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| | Three Month Period Ended | | | Six Month Period Ended | |
|---|--------------------------|-------------------|------------------|------------------------|------------------|
| | June 30, 2005 | March 31, 2005 | June 30, 2004 | June 30, 2005 | June 30, 2004 |
| Operating Data | | | | | |
| Company Listings | | | | | |
| NYSE Listed Companies (1) | 2,780 | 2,774 | 2,742 | 2,780 | 2,742 |
| No. of New Listings (2) | 36 | 37 | 30 | 73 | 63 |
| NYSE Share (%) of Domestic Qualified New Listings Proceeds (IPOs) (3) | 94.3 | 95.8 | 100.0 | 95.2 | 98.9 |
| NYSE Share (%) of International Qualified New Listings Proceeds (IPOs) (4) | 100.0 | 100.0 | 100.0 | 100.0 | 91.8 |
| Trading Activity: NYSE-Listed Common Stocks and Warrants (5) | | | | | |
| Consolidated Average Daily Volume (millions of shares) (6) | 1,918.7 | 1,985.8 | 1,759.0 | 1,951.5 | 1,847.6 |
| % change from the same period in the prior year or quarter | 9.1% | 2.6% | -2.1% | 5.6% | 6.1% |
| NYSE Listed Average Daily Volume (millions of shares) (6) | 1,494.7 | 1,566.0 | 1,407.2 | 1,529.5 | 1,448.0 |
| % change from the same period in the prior year or quarter | 6.2% | 5.2% | -0.4% | 5.6% | 4.3% |
| NYSE Share of Trading - Full Day (%) (7) | 77.9% | 78.9% | 80.0% | 78.4% | 78.4% |
| NYSE Share of Trading - Trading Hours (%) (8) | 79.9% | 80.9% | 82.3% | 80.4% | 80.5% |
| Trading Activity : Other (9) | | | | | |
| NYSE ETF Average Daily Volume (millions of shares) (10) | 5.1 | 5.0 | 8.3 | 5.1 | 8.4 |
| Average Daily Volume in Crossing Sessions, Preferred Stocks and other issues (11) | 64.7 | 53.1 | 46.0 | 59.1 | 41.2 |
| Market Information | | | | | |
| Tape A Share of Trades (%) (12) | 89.0 | 89.6 | 91.6 | 89.3 | 90.4 |
| Professional Subscribers | 423,447 | 411,086 | 406,256 | 423,447 | 406,256 |
| Regulatory Fees | | | | | |
| Gross FOCUS Revenues (\$ billions) (13) | 47.0 | 37.8 | 36.2 | 84.8 | 69.9 |
| Data Processing | | | | | |
| % SIAC Revenues from Non-NYSE Customers | 40.8 | 41.8 | 44.4 | 41.3 | 44.5 |

- (1) Number of listed companies as of period end.
- (2) Includes initial public offerings and transfers from other markets.
- (3) Proceeds raised by NYSE-listed domestic IPOs/Total proceeds raised by qualified domestic IPOs.
- (4) Proceeds raised by NYSE-listed international IPOs/Total proceeds raised by qualified international IPOs. The initial capital-raising event in the United States involving a listing of a non-U.S. issuer is deemed an IPO for international purposes.
- (5) This trading activity includes only trades executed in NYSE-listed common stocks and warrants, as defined by the NYSE, and it excludes any trading activity in NYSE's preferred stocks, rights, structured products (including NYSE-listed exchange traded funds) and 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 at the NYSE during the NYSE's normal business hours of operation, or 9:30 am to 4:00 pm EST. Each of these figures is then divided by the appropriate number of trading days in the period.
- (7) In computing the NYSE's full day share of trading, the numerator is the NYSE average daily volume executed during normal NYSE business hours (currently 9:30 am to 4:00 pm EST) and the denominator is the consolidated average daily volume executed full day or between 4:00 am to 8:00 pm EST.
- (8) The NYSE's trading hours share of trading is calculated by taking the same NYSE numerator in (7) and dividing it by the amount of consolidated average daily volume executed during NYSE business hours.
- (9) This trading activity includes any volume executed at the NYSE that was not included in the NYSE's previously calculated share of trading. It includes NYSE unlisted trading privilege trading in specific exchange-traded funds and in the NYSE's crossing sessions, preferred stocks and other issues not previously included. (The unlisted trading privilege (UTP) is a right, provided by the Exchange Act, that permits securities listed on any national securities exchange and Nasdaq to be traded by other such exchanges.)
- (10) The NYSE first began trading exchange-traded funds on a UTP basis on 7/31/2001. The NYSE now trades 59 exchange-traded funds on a UTP basis, including the Standard & Poor's Depository Receipts® (SPY) and the Dow Industrials DIAMONDS® (DIA).
- (11) This is the amount of trading volume executed at the NYSE in NYSE-listed issues not currently included in our share of trading calculations. It includes preferred stocks, rights, structured products (including NYSE-listed exchange-traded funds) and the NYSE's four

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crossing sessions.

- (12) Number of NYSE-listed shares traded on the NYSE trading floor / Total number of NYSE-listed shares traded.
- (13) Revenue reported by member broker-dealers on the FOCUS report, the regulatory requirement for member broker-dealers to report their financial condition. NYSE records revenue on a six-month lag; the data is provided on that basis.

New York Stock Exchange, Inc.

Condensed Consolidated Statements of Income

(unaudited)

| (Amounts in Thousands) | Three months ended | | | % of Change From | |
|---|--------------------|-------------------|-------------------|------------------|--------------|
| | June 30, | March 31, | June 30, | March 31, | June 30, |
| | 2005 | 2005 | 2004 | 2005 | 2004 |
| | | (Restated) | (Restated) | | |
| Revenues: | | | | | |
| Activity assessment fees | \$ 141,773 | \$ 92,940 | \$ 93,034 | 52.5 | 52.4 |
| Listing fees | 85,465 | 85,995 | 81,855 | (0.6) | 4.4 |
| Data processing fees | 47,745 | 44,900 | 53,477 | 6.3 | (10.7) |
| Market information fees | 46,290 | 44,150 | 42,088 | 4.8 | 10.0 |
| Trading fees | 37,806 | 37,953 | 38,751 | (0.4) | (2.4) |
| Regulatory fees | 32,185 | 29,041 | 28,816 | 10.8 | 11.7 |
| Facility and equipment fees | 12,286 | 12,585 | 12,450 | (2.4) | (1.3) |
| Membership fees | 715 | 2,144 | 1,758 | (66.7) | (59.3) |
| Investment and other income | 13,844 | 31,758 | 12,829 | (56.4) | 7.9 |
| Total revenues | \$ 418,109 | \$ 381,466 | \$ 365,058 | 9.6 | 14.5 |
| SEC activity remittance | 141,773 | 92,940 | 93,034 | 52.5 | 52.4 |
| Revenues, less SEC activity remittance | \$ 276,336 | \$ 288,526 | \$ 272,024 | (4.2) | 1.6 |
| Expenses: | | | | | |
| Compensation | 125,551 | 126,553 | 131,282 | (0.8) | (4.4) |
| Systems and related support | 31,895 | 31,742 | 34,342 | 0.5 | (7.1) |
| Professional services | 35,663 | 28,050 | 41,064 | 27.1 | (13.2) |
| Depreciation and amortization | 26,446 | 26,173 | 22,192 | 1.0 | 19.2 |
| Occupancy | 17,285 | 17,036 | 16,764 | 1.5 | 3.1 |
| General and administrative | 17,870 | 15,009 | 22,333 | 19.1 | (20.0) |
| Total expenses | \$ 254,710 | \$ 244,563 | \$ 267,977 | 4.1 | (5.0) |
| Income before taxes and minority interest | 21,626 | 43,963 | 4,047 | (50.8) | 434.4 |
| Provision (benefit) for income taxes | 7,415 | 18,809 | (1,224) | (60.6) | (705.9) |
| Minority interest in income (loss) of consolidated subsidiary | 1,225 | (865) | 308 | (241.6) | 297.7 |
| Net Income | \$ 12,986 | \$ 26,019 | \$ 4,963 | (50.1) | 161.7 |

* NYSE revenues and expenses include the results of its two thirds- owned subsidiary, Securities Industry Automation Corp.

** Certain prior period amounts have been reclassified to conform with current period presentation.

New York Stock Exchange, Inc.

Condensed Consolidated Statements of Income

(unaudited)

| (Amounts in Thousands) | Six months ended | | % of Change |
|--|-------------------|--------------------------------|----------------|
| | June 30, 2005 | June 30, 2004 (Restated) | |
| Revenues: | | | |
| Activity assessment fees | 234,713 | 224,604 | 4.5 |
| Listing fees | 171,460 | 165,015 | 3.9 |
| Data processing fees | 92,645 | 109,433 | (15.3) |
| Market information fees | 90,440 | 82,803 | 9.2 |
| Trading fees | 75,759 | 79,723 | (5.0) |
| Regulatory fees | 61,226 | 56,056 | 9.2 |
| Facility and equipment fees | 24,871 | 25,246 | (1.5) |
| Membership fees | 2,859 | 4,342 | (34.2) |
| Investment and other income | 45,602 | 20,340 | |
| Total revenues | \$ 799,575 | \$ 767,562 | 4.2 |
| SEC activity remittance | 234,713 | 224,604 | 4.5 |
| Revenues, less SEC activity remittance | \$ 564,862 | \$ 542,958 | 4.0 |
| Expenses: | | | |
| Compensation | 252,104 | 260,749 | (3.3) |
| Systems and related support | 63,637 | 71,341 | (10.8) |
| Professional services | 63,713 | 68,980 | (7.6) |
| Depreciation and amortization | 52,619 | 44,167 | 19.1 |
| Occupancy | 34,321 | 32,991 | 4.0 |
| General and administrative | 32,879 | 36,631 | (10.2) |
| Total expenses | \$ 499,273 | \$ 514,859 | (3.0) |
| Income before taxes and minority interest | 65,589 | 28,099 | 133.4 |
| Provision for income taxes | 26,224 | 9,099 | 188.2 |
| Minority interest in income of consolidated subsidiary | 360 | 828 | (56.5) |
| Net Income | \$ 39,005 | \$ 18,172 | 114.6 |

* NYSE revenues and expenses include the results of its two thirds- owned subsidiary, Securities Industry Automation Corp.

** Certain prior period amounts have been reclassified to conform with current period presentation.

New York Stock Exchange, Inc.

Condensed Consolidated Statements of Financial Condition

| (Amounts in Thousands) | June 30, 2005 | December 31, 2004 |
|---|---------------------|----------------------|
| | (Unaudited) | (Restated) |
| Assets | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 43,625 | \$ 15,456 |
| Securities purchased under agreements to resell | 47,074 | 55,209 |
| Investment securities, at fair value | 1,164,583 | 914,845 |
| Accounts receivable, net | 157,898 | 102,941 |
| Taxes receivable | 1,552 | 26,906 |
| Deferred tax asset | 66,936 | 83,039 |
| Other assets | 40,730 | 46,230 |
| | <u>1,522,398</u> | <u>1,244,626</u> |
| Property and equipment, at cost, less accumulated depreciation and amortization | 342,890 | 343,424 |
| Investments and affiliates, at cost | 2,662 | 2,652 |
| Non-current deferred tax asset | 296,765 | 291,639 |
| Other non-current assets | 96,754 | 99,910 |
| | <u>2,261,469</u> | <u>1,982,251</u> |
| Liabilities and equity of members: | | |
| Current liabilities: | | |
| Accounts payable | \$ 46,674 | \$ 99,165 |
| Accrued expenses | 185,730 | 208,031 |
| Deferred tax liability | 8,310 | 11,264 |
| Deferred revenue | 220,545 | 85,955 |
| SEC activity remittance payable | 271,839 | 82,482 |
| | <u>733,098</u> | <u>486,897</u> |
| Liabilities due after one year: | | |
| Accrued employee benefits | 315,942 | 311,831 |
| Non-current deferred tax liability | 7,537 | 17,413 |
| Deferred revenue | 332,634 | 335,509 |
| Other long-term liabilities | 36,024 | 29,927 |
| | <u>1,425,235</u> | <u>1,181,577</u> |
| Total liabilities | 1,425,235 | 1,181,577 |
| Minority interest | 33,384 | 33,206 |
| Commitments and contingencies | | |
| Member s equity: | | |
| Equity of members | 806,037 | 767,032 |
| Accumulated other comprehensive income/(loss) | (3,187) | 436 |
| | <u>802,850</u> | <u>767,468</u> |
| Total equity of 1,366 members | 802,850 | 767,468 |
| | <u>2,261,469</u> | <u>1,982,251</u> |
| Total liabilities and members equity | \$ 2,261,469 | \$ 1,982,251 |
| | <u>588</u> | <u>562</u> |
| Equity per member having distributive rights | \$ 588 | \$ 562 |

Important Acquisition Information with Respect to the Merger

In connection with the proposed merger of the New York Stock Exchange, Inc. (NYSE) and Archipelago Holdings, Inc. (Archipelago), NYSE Group, Inc. filed a registration statement on Form S-4 with the Securities and Exchange Commission (SEC) on July 21, 2005, containing a preliminary joint proxy statement/prospectus regarding the proposed transaction. The Registration Statement has not yet become effective. The parties will file other relevant documents concerning the proposed transaction with the SEC.

Such final documents, however, are not currently available. NYSE MEMBERS AND ARCHIPELAGO STOCKHOLDERS ARE URGED TO READ THE FINAL JOINT PROXY STATEMENT/ PROSPECTUS REGARDING THE PROPOSED TRANSACTION WHEN IT BECOMES AVAILABLE, BECAUSE IT WILL CONTAIN IMPORTANT INFORMATION. NYSE members and Archipelago stockholders can obtain a free copy of the final joint proxy statement/ prospectus, as well as other filings containing information about the NYSE and Archipelago without charge, at the SEC 's website (<http://www.sec.gov>). Copies of the final joint proxy statement/ prospectus can also be obtained, without charge, once they are filed with the SEC, by directing a request to the Office of the Corporate Secretary, NYSE, 11 Wall Street, New York 10005, 212-656-2061 or to Archipelago, Attention: Investor Relations, at 100 S. Wacker Drive, Suite 1800, Chicago, Illinois 60606 or calling (888) 514-7284. The NYSE, Archipelago and their respective directors and executive officers and other members of management and employees may be deemed to be participants in the solicitation of proxies from Archipelago stockholders in respect of the proposed transaction. Information regarding Archipelago 's directors and executive officers is available in Archipelago 's proxy statement for its 2005 annual meeting of stockholders, dated March 31, 2005.

Additional information regarding the interests of such potential participants will be included in the joint proxy statement/prospectus and the other relevant documents filed with the SEC when they become available. This press release shall not constitute an offer to sell or the solicitation of an offer to buy any securities, nor shall there be any sale of securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction. No offering of securities shall be made except by means of a prospectus meeting the requirements of Section 10 of the Securities Act of 1933, as amended.

Forward-Looking Statements

Certain statements in this press release may contain forward-looking information regarding the NYSE and Archipelago and the combined company after the completion of the transactions that are intended to be covered by the safe harbor for forward-looking statements provided by the Private Securities Litigation Reform Act of 1995. These statements include, but are not limited to, the benefits of the business combination transaction involving the NYSE and Archipelago, including future financial and operating results, the new company 's plans, objectives, expectations and intentions and other statements that are not historical facts. Such statements are based upon the current beliefs and expectations of NYSE 's and Archipelago 's management and are subject to significant risks and uncertainties. Actual results may differ from those set forth in the forward-looking statements.

The following factors, among others, could cause actual results to differ from those set forth in the forward-looking statements: the ability to obtain governmental approvals of the transaction on the proposed terms and schedule; the failure of NYSE members or Archipelago shareholders to approve the transaction; the risk that the businesses will not be integrated successfully; the risk that the cost savings and any other synergies from the transaction may not be fully realized or may take longer to realize than expected; disruption from the transaction making it more difficult to maintain relationships with customers, employees or suppliers; competition and its effect on pricing, spending, third party relationships and revenues; social and political conditions such as war, political unrest or terrorism; general economic conditions and normal business uncertainty. Additional risks and factors are identified in Archipelago 's filings with the Securities Exchange Commission, including its Report on Form 10-K for the fiscal year ending December 31, 2004 which is available on Archipelago 's website at <http://www.Archipelago.com>, and the Registration Statement on Form S-4 filed by NYSE Group, Inc. with the SEC on July 21, 2005.

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You should not place undue reliance on forward-looking statements, which speak only as of the date of this press release. Except for any obligation to disclose material information under the Federal securities laws, none of the NYSE, Archipelago or the combined company after the completion of the transactions undertake any obligation to release publicly any revisions to any forward-looking statements to reflect events or circumstances after the date of this press release.

The NYSE, Archipelago and their respective directors and executive officers and other members of management and employees may be deemed to be participants in the solicitation of proxies from Archipelago stockholders in respect of the proposed transaction. Information regarding Archipelago's directors and executive officers is available in Archipelago's proxy statement for its 2005 annual meeting of stockholders, dated March 31, 2005. Additional information regarding the interests of such potential participants will be included in the joint proxy statement/prospectus and the other relevant documents filed with the SEC when they become available.

This press release shall not constitute an offer to sell or the solicitation of an offer to buy any securities, nor shall there be any sale of securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction. No offering of securities shall be made except by means of a prospectus meeting the requirements of Section 10 of the Securities Act of 1933, as amended.