Lewis Daniel Lee
Form 4
February 05, 2018

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

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

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

OMB APPROVAL
OMB Number: 3235-0287
Expires: January 31, 2005
Estimated average burden hours per response... 0.5

(Print or Type Responses)

1. Name and Address of Reporting Person *
Lewis Daniel Lee

(Last) (First) (Middle)

166 W PEARL STREET

(Street)

COLDWATER, MI 49036

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
MoSys, Inc. [MOSY]

3. Date of Earliest Transaction (Month/Day/Year)
02/01/2018

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

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ 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 Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Restricted Stock Units	02/01/2018		A		20,000	A	(1)	20,000	D	

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 (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		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 (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Lewis Daniel Lee 166 W PEARL STREET COLDWATER, MI 49036	X			

Signatures

C.Leitner by power of attny	02/05/2018
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Restricted Stock Unit ("RSU") award granted February 1, 2018. Each RSU represents a contingent right to receive one share of the Company's common stock once vested. The entire award vests and becomes non-forfeitable on February 1, 2019.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. TD>

Explanation of Responses:

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Archipelago Holdings Inc.

We have audited management's assessment, included in the accompanying "Management's Report on Internal Control Over Financial Reporting", that Archipelago Holdings Inc. (the "Company") maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Archipelago Holdings Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of 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 the policies or procedures may deteriorate.

As indicated in the accompanying "Management's Report on Internal Control over Financial Reporting" management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of PCX Holdings Inc. and its wholly owned subsidiaries ("PCX") which is included in the 2005 consolidated financial statements of Archipelago Holdings Inc. and constituted $115.3 million and $30.9 million of total and net assets, respectively, as of December 31, 2005 and $16.8 million and $2.6 million of revenues and net income, respectively, for the year then ended. Management did not assess the effectiveness of internal controls over financial reporting of PCX Holdings Inc. and its wholly owned subsidiaries as the Company did not complete the acquisition of PCX until September 2005. Our audit of internal control over financial reporting of Archipelago Holdings Inc. also did not include an evaluation of the internal control over financial reporting of PCX.

In our opinion, management's assessment that Archipelago Holdings Inc. maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Archipelago Holdings Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on the COSO criteria.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of financial condition of Archipelago Holdings Inc. as of December 31, 2005 and 2004, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2005 of Archipelago Holdings Inc. and our report dated February 10, 2006 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

New York, New York

February 10, 2006

Management's Report on Internal Control Over Financial Reporting

The management of Archipelago Holdings, Inc. ("Archipelago" or the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting of the Company. Archipelago's internal control over financial reporting is a process designed under the supervision of our chief executive and chief financial officers to 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 our 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 our 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, Inc. and Subsidiaries ("PCX"), which are included in the consolidated financial statements of Archipelago as of and for the year December 31, 2005. PCX 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. Management did not assess the effectiveness of internal controls over financial reporting of PCX because we did not complete our acquisition of PCX until September 26, 2005.

Archipelago's management assessment of the effectiveness of our 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 herein.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Archipelago Holdings Inc.

We have audited the accompanying consolidated statements of financial condition of Archipelago Holdings, Inc. (the "Company") as of December 31, 2005 and 2004, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for the years ended December 31, 2005, 2004 and 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company at December 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for the years ended December 31, 2005, 2004 and 2003 in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 10, 2006 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

New York, New York
February 10, 2006

ARCHIPELAGO HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(In thousands, except per share data)

	December 31, 2005	December 31, 2004
Assets		
Current assets:		
Cash and cash equivalents	$ 134,358	$ 145,170
Receivables from brokers, dealers and customers (net of allowance for doubtful accounts of $915 and $3,253)	56,585	31,445
Receivables from related parties (net of allowance for doubtful accounts of $334 and $374)	23,304	42,911
Income tax receivable	18,055	2,220
Deferred tax asset	5,787	5,094
Total current assets	238,089	226,840
Fixed assets, net	67,091	44,738
Goodwill	131,865	131,865
Other intangible assets, net	108,753	92,169
Non-current deferred tax asset, net	11,863	340
Other assets	7,976	7,774
Total non-current assets	327,548	276,886
Assets of discontinued operations	14,157	40,172
Total assets	$ 579,794	$ 543,898
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 48,682	$ 23,694
Section 31 fees payable	57,032	
Payables to brokers, dealers and exchanges	28,797	19,283
Payables to related parties	1,674	19,623
Capital lease obligations	1,691	1,545
Total current liabilities	137,876	64,145
Deferred tax liability	10,312	3,595
Liabilities of discontinued operations	9,457	15,285
Total liabilities	157,645	83,025
Commitments and contingencies (Note 14)		
Stockholders' equity		
Common stock, $0.01 par value, 165,000 shares authorized; 47,528 and 47,138 shares issued and outstanding	475	471
Common stock held in treasury, at cost; 1,802 and 0 shares	(73,395)	
Additional paid-in capital	472,705	451,625
Unearned stock-based compensation	(2,751)	(19)
Retained earnings	25,115	8,796

	December 31,	
Total stockholders' equity	422,149	460,873
Total liabilities and stockholders' equity	$ 579,794	$ 543,898

The accompanying notes are an integral part of these consolidated financial statements.

ARCHIPELAGO HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	Year ended December 31,		
	2005	**2004**	**2003**
Revenues			
Transaction fees ($165,891, $188,559, and $165,292 with related parties)	$ 424,981	$ 434,482	$ 380,593
Activity assessment fees	47,988		
Market data fees ($21,446, $23,986 and $10,041 with related parties)	61,996	56,366	29,038
Listing and other fees	6,379	445	450
Total revenues	541,344	491,293	410,081
Expenses			
Section 31 fees	47,988		
Liquidity payments ($59,779, $53,517 and $43,702 with related parties)	206,907	203,506	154,228
Routing charges ($16,135, $46,702 and $55,840 with related parties)	66,705	88,703	113,840
Clearance, brokerage and other transaction expenses ($2,671, $13,366, and $37,586 with related parties)	5,880	13,686	44,941
NYSE merger costs and related executive compensation ($3,500, $0, and $0 with related parties)	46,127		
Other employee compensation and benefits	51,552	38,382	36,139
Depreciation and amortization	21,631	22,877	25,870
Communications ($1,780, $1,209, and $1,032 with related parties)	19,512	16,278	18,319
Marketing and promotion ($0, $357, and $528 with related parties)	22,141	20,123	8,135
Legal and professional ($2,400, $1,988 and $1,000 with related parties)	12,623	11,129	8,294
Occupancy	6,708	4,243	3,952
General and administrative	16,173	11,267	9,916
Total expenses	523,947	430,194	423,634
Operating income (loss)	17,397	61,099	(13,553)
Interest and other, net	4,458	1,580	656
Income (loss) before income tax provision	21,855	62,679	(12,897)
Income tax provision	9,349	5,286	
Income (loss) from continuing operations	12,506	57,393	(12,897)
Income from discontinued operations	3,813	11,547	14,670
Net income	16,319	68,940	1,773
Deemed dividend on convertible preferred shares		(9,619)	
Net income attributable to common stockholders	$ 16,319	$ 59,321	$ 1,773
Basic earnings (loss) per share from:			
Continuing operations	$ 0.27	$ 1.42	$ (0.36)
Discontinued operations	0.08	0.29	0.41
Deemed dividend on convertible preferred shares		(0.24)	
Basic earnings per share	$ 0.35	$ 1.47(a)	$ 0.05(a)

	Year ended December 31,		
Diluted earnings (loss) per share from:			
Continuing operations	$ 0.26	$ 1.34	$ (0.35)
Discontinued operations	0.08	0.27	0.40
Deemed dividend on convertible preferred shares		(0.22)	
Diluted earnings per share	$ 0.34	$ 1.38(a)	$ 0.05(a)
Basic weighted average shares outstanding	46,806	40,301(a)	36,169(a)
Diluted weighted average shares outstanding	47,821	42,915(a)	36,980(a)

(a) Adjusted to reflect Archipelago's reorganization from a Delaware limited liability company to a Delaware corporation on August 11, 2004. See Note 1 to consolidated financial statements.

The accompanying notes are an integral part of these consolidated financial statements.

ARCHIPELAGO HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For the years ended December 31, 2003, 2004 and 2005

(In thousands)

		Common Stock						
	Members' Equity	**Shares**	**Par Value**	**Common Stock Held in Treasury**	**Additional Paid-In Capital**	**Unearned Stock-Based Compensation**	**Retained Earnings**	**Total Stockholders' Equity**
Balance, January 1, 2003	$ 302,823		$	$	$	$	$	$ 302,823
Issuance costs of redeemable convertible preferred shares	(1,636)							(1,636)
Deferred compensation, net	(170)							(170)
Addition to Members' equity due to deferred compensation	503							503
Net income	1,773							1,773
Balance, January 1, 2004	303,293							303,293
Amortization of stock-based compensation for the period from January 1 to August 11, 2004						94		94
Members' distribution	(24,613)							(24,613)
Net income for the period from January 1 to August 11, 2004	50,525							50,525
Reorganization from LLC to "C" Corporation	(329,205)	36,169	362		329,013	(170)		
Conversion of redeemable convertible preferred shares to common		3,732	37		49,963			50,000
Issuance of common stock in initial public offering, net of underwriting discounts		6,325	63		67,583			67,646
Direct costs of initial public offering					(6,777)			(6,777)
Issuance of additional common stock to former REDIBook members		192	2		2,197			2,199
Issuance of additional common stock to GAP Archa Holdings and related deemed dividend on convertible preferred shares		717	7		9,612		(9,619)	
Amortization of stock-based compensation for the period from August 12 to December 31, 2004						57		57
Exercise of stock options		3			34			34
Net income for the period from August 12 to December 31, 2004							18,415	18,415
Balance, January 1, 2005		47,138	471		451,625	(19)	8,796	460,873
Acquisition of PCX Holdings, Inc.				(65,570)				(65,570)
Grant of restricted stock awards					13,834	(13,834)		
Stock issued under restricted stock awards		245	3	(7,825)	4,129	7,526		3,833

	Common Stock						
Amortization of stock-based compensation					3,576		3,576
Exercise of stock options	145	1		3,117			3,118
Net income						16,319	16,319
Balance, December 31, 2005	$ 47,528	$ 475	$ (73,395)	$ 472,705	$ (2,751)	$ 25,115	$ 422,149

The accompanying notes are an integral part of these consolidated financial statements.

ARCHIPELAGO HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Year ended December 31, 2005	2004	2003
Cash flows from operating activities:			
Net income	$ 16,319	$ 68,940	$ 1,773
Income from discontinued operations	(3,813)	(11,547)	(14,670)
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization of fixed assets	19,911	21,250	24,785
Amortization of other intangible assets	1,720	1,627	1,085
Provision for doubtful accounts	(540)	(900)	6,544
Deferred taxes	7,689	(1,839)	
Stock-based compensation	11,113	151	334
Tax benefit from employee stock transactions	5,516	18	
Gain on sale of investment			(232)
Changes in operating assets and liabilities:			
Receivables from brokers, dealers and customers	(17,722)	1,121	(16,571)
Receivables from related parties	31,527	(7,486)	(19,204)
Income tax receivable	(15,835)	(2,220)	
Other assets	32	(4,310)	(34)
Accounts payable and accrued expenses	(11,275)	5,854	2,793
Section 31 fees payable	57,032		
Payables to brokers, dealers and exchanges	7,742	1,917	5,043
Payables to related parties	(17,949)	(43,271)	32,136
Net cash provided by operating activities of continuing operations	91,467	29,305	23,782
Net cash provided by (used in) operating activities of discontinued operations	(655)	31,964	7,612
Net cash provided by operating activities	90,812	61,269	31,394
Cash flows from investing activities:			
Acquisition of business, net of cash acquired	(89,376)		
Additions to fixed and other intangible assets	(29,032)	(25,135)	(23,361)
Sale of investment			2,202
Net cash used in investing activities of continuing operations	(118,408)	(25,135)	(21,159)
Net cash provided by investing activities of discontinued operations	2,922	339	
Net cash used in investing activities	(115,486)	(24,796)	(21,159)
Cash flows from financing activities:			
Capital contribution from discontinued operations	24,000	17,000	11,000
Repurchase of common stock	(7,825)		
Proceeds from initial public offering, net of underwriting discounts		67,646	
Direct costs of initial public offering		(6,777)	
Cash distribution to former Members		(24,613)	
Proceeds from exercise of stock options	1,724	16	
Proceeds from issuance of note payable			5,681
Repayments of note payable		(4,429)	(1,252)
Proceeds from issuance of redeemable convertible preferred shares			50,000
Costs related to issuance of redeemable convertible preferred shares			(1,636)
Principal payments under capital lease obligations	(1,770)	(2,253)	(177)

	Year ended December 31,		
Net cash provided by financing activities of continuing operations	16,129	46,590	63,616
Net cash used in financing activities of discontinued operations	(24,000)	(17,000)	(11,000)
Net cash provided by (used in) financing activities	(7,871)	29,590	52,616
Net increase (decrease) in cash and cash equivalents	(32,545)	66,063	62,851
Cash and cash equivalents at beginning of year	177,878	111,815	48,964
Cash and cash equivalents at end of year	145,333	177,878	111,815
Cash and cash equivalents of discontinued operations	10,975	32,708	17,405
Cash and cash equivalents of continuing operations	$ 134,358	$ 145,170	$ 94,410
Supplemental disclosures of cash flow information:			
Cash paid for			
Interest	82	298	434
Income taxes	14,873	11,018	
Non-cash investing and financing activities:			
Conversion of convertible preferred shares to common		50,000	
Issuance of common stock to former REDIBook Members		2,199	
Issuance of common stock to GAP Archa Holdings		9,619	

The accompanying notes are an integral part of these consolidated financial statements.

ARCHIPELAGO HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005

Note 1 Organization and Basis of Presentation

Organization

Archipelago Holdings, Inc. ("Archipelago") operates the Archipelago Exchange, or ArcaEx® ("ArcaEx"), the first open all-electronic stock market in the United States of America for trading equity securities listed with the New York Stock Exchange ("NYSE"), Nasdaq, American Stock Exchange ("AMEX") and Pacific Exchange, as well as exchange-traded funds (ETFs) and other exchange-listed securities.

Following the September 26, 2005 acquisition of PCX Holdings, Inc. and its subsidiaries ("PCX Holdings"), Archipelago also operates the Pacific Exchange, Inc. (the "Pacific Exchange"), 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. Through the Pacific Exchange, Archipelago also provides self-regulatory services, including regulatory and market management services for options and equity trading.

Through certain subsidiaries, Archipelago also provides broker execution services to institutions for orders involving Nasdaq and listed securities, as well as introducing broker services for ArcaEx to broker-dealers that do not hold an equity trading permit ("ETP").

Archipelago Holdings, L.L.C. ("Holdings LLC"), a Delaware limited liability company and the predecessor to Archipelago, was organized in January 1999. In July 2000, Holdings LLC entered into a facility services agreement with the Pacific Exchange which allowed it to establish and operate ArcaEx. The Securities and Exchange Commission's ("SEC") approval of ArcaEx was announced in October 2001 and ArcaEx began trading operations for listed securities in March 2002 and for over-the-counter securities in April 2003.

On August 11, 2004, Holdings LLC converted to a Delaware corporation, Archipelago Holdings, Inc. We refer to Archipelago Holdings, Inc. and, prior to its conversion to a Delaware corporation, Holdings LLC, as "Archipelago". On August 19, 2004, Archipelago completed an initial public offering ("IPO") of its common stock. See the discussion below of the "*Conversion Transaction*" and the "*Initial Public Offering*."

On March 7, 2006, Archipelago became a wholly owned subsidiary of NYSE Group and its common stock delisted from the Pacific Exchange. See Note 3, Merger with the New York Stock Exchange, Inc.

Conversion Transaction

On August 11, 2004, prior to the consummation of the IPO, Holdings LLC converted from a Delaware limited liability company to a Delaware corporation, Archipelago Holdings, Inc. As a limited liability company, all income taxes were paid by the members of Holdings LLC. As a corporation, Archipelago is responsible for the payment of all federal and state corporate income taxes.

As a result of the reorganization of Holdings LLC from a Delaware limited liability company into a Delaware corporation, the members of Holdings LLC received 0.222222 shares of common stock of Archipelago for each of their membership interests held by such member in Holdings LLC, which corresponds to a 4.5-for-1 reverse stock split. The weighted average number of shares used in the basic and diluted earnings per share computations gives retroactive effect to the 4.5-for-1 reverse stock split.

As approved by Archipelago's board of managers on July 16, 2004, Archipelago made a $24.6 million cash distribution to the members of Holdings LLC immediately prior to the conversion transaction. The cash distribution permitted the members to pay the taxes that the members owe for their share of the 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 the tax withholding purposes to an individual.

Initial Public Offering

On August 19, 2004, Archipelago completed the IPO of its common stock as a result of which Archipelago sold 6,325,000 shares of 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 the IPO. In addition, 6,325,000 shares of common stock were sold in the IPO by certain selling stockholders of Archipelago, for which Archipelago received no proceeds.

Basis of Presentation

The accompanying consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America and include the accounts of Archipelago and its wholly owned subsidiaries. Intercompany accounts and transactions have been eliminated in consolidation.

In connection with the acquisition of PCX Holdings, the SEC entered an order under which Archipelago undertook to divest its wholly-owned subsidiary, Wave Securities, L.L.C ("Wave"). The results of operations and financial position of Wave are presented as discontinued operations in the accompanying consolidated financial statements. All historical periods presented have been restated to reflect such presentation.

Included in other assets in the Archipelago's consolidated statement of financial condition as of December 31, 2005 is a 20 percent investment in The Options Clearing Corporation ("OCC"). This investment is carried at its $0.3 million cost. The related shares are subject to certain restrictions. In addition, management does not exercise significant influence over the operating and financial policies of OCC.

Certain reclassifications have been made to prior years in order to conform to the current year's presentation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management believes that the estimates utilized in preparing its consolidated financial statements are reasonable. Actual results could differ from these estimates.

Note 2 Summary of Significant Accounting Policies

Revenue Recognition

Transaction fees are earned on a per trade basis, based on shares transacted, and are recognized as transactions occur. For each transaction executed, there is an associated liquidity payment or routing charge paid. Pursuant to Emerging Issues Task Force ("EITF") Issue No. 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent" ("EITF 99-19"), Archipelago records such expenses as liquidity payments or routing charges in the consolidated statements of operations.

Market data fees are earned on the sale of transaction market data. This revenue is recorded net of amounts due under revenue sharing arrangements with market participants, based on the criteria provided by EITF 99-19. Market data fees are recognized as transactions occur.

Listing fees are earned from companies and index providers that list on the Pacific Exchange as a trading venue for their equity securities, exchange-traded funds and other structured products. Archipelago recognizes initial listing fees and additional share listing fees ratably over a five-year estimated service period. Annual listing fees are recognized ratably over the related twelve-month period.

Other revenues primarily consist 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 are billed and collected by the National Association of Securities Dealers (the "NASD"). The annual registration fee is billed annually in advance and remitted to Archipelago before the start of the effective year. Archipelago recognizes the annual registration fee ratably over the related twelve-month period. New registration and transfer application fees are remitted monthly to Archipelago and recognized in the year received.

Activity Assessment Fees and Section 31 Fees

Archipelago pays SEC fees pursuant to Section 31 of the Securities Exchange Act of 1934. These fees are designed to recover costs incurred by the government for the supervision and regulation of securities markets and securities professionals. Archipelago, in turn, collects activity assessment fees from ETP and OTP holders trading on ArcaEx and the Pacific Exchange, respectively, and pays Section 31 fees to the SEC based on fee schedules determined by the SEC. 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 26, 2005 acquisition of PCX Holdings, Archipelago records activity assessment fee revenue and Section 31 fees expense gross on its consolidated statement of operations as Archipelago bears the credit risk associated with the collection of these fees, while maintaining similar treatment within the consolidated statement of financial condition. Activity assessment fee revenue and Section 31 fee expense have no impact on Archipelago's consolidated statement of operations.

Cash and Cash Equivalents

Archipelago considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

Provision for Doubtful Accounts

Archipelago maintains an allowance for doubtful accounts based upon the estimated collectibility of accounts receivable. Archipelago recorded provisions (additions) to the allowance of approximately $0.8 million and $0.0 million**,** and write-offs (deductions) against the allowance of approximately $3.1 million and $1.3 million for the years ended December 31, 2005 and 2004, respectively. Additions to (reductions of) the allowance are charged to (reversed against) bad debt expense, which is included in clearance, brokerage and other transaction expenses in the consolidated statements of operations.

Fixed Assets

Fixed assets consist of computer hardware and software, furniture, equipment (including assets under capital leases) and leasehold improvements. All fixed assets are carried at cost and are depreciated on a straight-line basis over their estimated useful lives of three to ten years. Leasehold improvements are amortized over the shorter of the life of the lease or their estimated useful life. Gains or losses related to retirements or disposition of fixed assets are recognized in the period incurred.

In accordance with the provisions of Statement of Position ("SOP") 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use", Archipelago capitalizes qualifying software 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.

Archipelago performs reviews for the impairment of fixed assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Goodwill and Other Intangible Assets

Archipelago reviews the carrying value of goodwill for impairment on a periodic basis and at least annually based upon estimated fair value of Archipelago's reporting units. Using an independent valuation specialist, Archipelago, on an annual basis, estimates fair value by using a discounted cash flow model. Should the review indicate that goodwill is impaired, Archipelago's goodwill would be reduced by the difference between the carrying value of goodwill and its fair value.

Archipelago reviews the useful life of its indefinite-lived intangible asset to determine whether events or circumstances continue to support the indefinite useful life. In addition, the carrying value of Archipelago's intangible assets is reviewed by Archipelago on at least an annual basis for impairment based upon the estimated fair value of the asset calculated by an independent valuation specialist.

Archipelago performed its annual impairment tests as of December 31, 2004 and 2005, which indicated that no impairment charge was required for goodwill or intangible assets.

Estimated Fair Value of Financial Instruments

Statement of Financial Accounting Standard ("SFAS") No. 107, Disclosure about Fair Value of Financial Instruments, requires the disclosure of the fair value of financial instruments, including assets and liabilities recognized in the consolidated statements of financial condition. Management estimates that the fair value of financial instruments recognized in the consolidated statements of financial condition (including cash and cash equivalents, receivables, payables and accrued expenses) approximates their carrying value, as such financial instruments are short-term in nature, bear interest at current market rates or are subject to repricing monthly.

Income Taxes

Archipelago had elected to be treated as a partnership for federal, state and local income tax purposes prior to its reorganization on August 11, 2004. Accordingly, all items of income, expense, gain and loss of Archipelago prior to August 12, 2004 were generally reportable on the tax returns of the members of Holdings LLC. Therefore, Archipelago had no net loss carryforwards as of the date of reorganization. On August 11, 2004, Archipelago converted to a Delaware corporation and has since then been subject to income taxes.

Archipelago records income taxes using the asset and liability method. Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. A valuation allowance is recorded against deferred tax assets if it is more likely than not that such assets will not be realized.

Marketing and Promotion

Marketing and promotion costs consist of advertising costs, promotional items, trade shows, and selling expenses. Advertising costs include certain costs of production, which are expensed at the time of first showing. The costs of communicating advertising are expensed over the period of the communication.

Stock-Based Compensation

Archipelago accounts for stock option grants to employees in accordance with Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees", and, accordingly, recognizes compensation expense using the intrinsic value method. Under the intrinsic value method, stock-based compensation, if any, is measured as the excess of the estimated fair value of Archipelago's stock over the option exercise price.

Archipelago adopted the disclosure provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" and SFAS No. 148, "Accounting for Stock-Based Compensation Transition and Disclosure". Had compensation expense for Archipelago's stock option plans been determined based upon fair value consistent with SFAS No. 123, Archipelago's net income and earnings per share would have been changed to the following pro forma amounts (in thousands, except per share data):

	Year ended December 31,		
	2005	2004	2003
Net income attributable to common stockholders, as reported	$ 16,319	$ 59,321	$ 1,773
Add: Stock-based employee compensation cost included in net income	6,390	151	334
Deduct: Stock-based employee compensation cost determined under the fair value based method for all awards, net of related tax effects of $5,788, $739, and $919	7,832	1,041	1,379
Net income attributable to common stockholders, pro forma	$ 14,877	$ 58,431	$ 728
Earnings per share:			
Basic, as reported	$ 0.35	$ 1.47	$ 0.05
Basic, pro forma	$ 0.32	$ 1.45	$ 0.02
Diluted, as reported	$ 0.34	$ 1.38	$ 0.05
Diluted, pro forma	$ 0.31	$ 1.36	$ 0.02

The fair value of each option grant was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	Year ended December 31,		
	2005	2004	2003
Dividend yield	0	0	0
Expected volatility	30.0%	30.0%	30.0%
Risk-free interest rate	4.5%	4.0%	3.8%
Expected life (in years)	7	7	7

The Black-Scholes option pricing model was developed for use in estimating the value of traded options that have no vesting restrictions and are fully transferable. In addition, option pricing models require the input of highly subjective assumptions. Because Archipelago's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the estimate, in management's opinion, the existing valuation models may not provide a reliable measure of the fair value of Archipelago's employee stock options.

The above pro forma information gives effect to Archipelago's conversion into a Delaware corporation as if it occurred at the beginning of the periods presented. In addition, the pro forma information was tax effected at combined Federal and State rates of 40.0%, 41.5% and 42.5% for the years ended December 31, 2003, 2004 and 2005, respectively.

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. 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 Archipelago share-based payment transactions recorded under SFAS No. 123(R).

Note 3 Merger with New York Stock Exchange, Inc.

On April 20, 2005, Archipelago entered into a definitive merger agreement with the New York Stock Exchange, Inc., a New York Type A not-for-profit corporation (the "NYSE"), pursuant to which Archipelago and the NYSE agreed to combine their businesses and become wholly owned subsidiaries of NYSE Group, Inc., a newly created, for-profit holding company (the "merger").

The merger closed on March 7, 2006. As of that date, Archipelago became a wholly owned subsidiary of NYSE Group and its common stock delisted from the Pacific Exchange. The NYSE Group's common stock is listed on the New York Stock Exchange and is traded under the symbol "NYX".

In the merger of Archipelago and a wholly owned subsidiary of NYSE Group, in which Archipelago was the surviving entity: (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's stockholders equaled 30% of the issued and outstanding shares of NYSE Group common stock at the closing of the merger, on a diluted basis.

Each NYSE member was entitled to receive in exchange for its NYSE membership, $300,000 in cash, plus a pro rata portion of the aggregate number of shares of NYSE Group Common Stock issued to all of the NYSE members in the merger. Each NYSE member 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 certain 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 70% of the NYSE Group common stock issued and outstanding at the closing of the NYSE transaction, on a diluted basis.

The parties expect that the combined businesses will bring together the strength of NYSE's auction market and the speed and innovation of Archipelago as well as its technology and management. The parties believe this combination will create a strong and dynamic enterprise with diverse products that will be well positioned to compete in the industry and possess enhanced growth potential.

In April 2005, Archipelago entered into a letter agreement with a related party stockholder under which the stockholder agreed to perform certain services in relation to the merger of Archipelago and the NYSE which included facilitating discussions between the parties and providing certain valuation analysis. Archipelago agreed to pay the related party stockholder a transaction fee of $3.5 million (plus out-of-pocket expenses in an amount not to exceed $50,000) in cash upon consummation of the merger. Archipelago has not made any payments under this agreement as of December 31, 2005.

Note 4 PCX Holdings, Inc. Acquisition

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 employees of PCX Holdings and its subsidiaries, and approximately $3.1 million of direct costs incurred by Archipelago as part of this acquisition (the "PCX Holdings acquisition"). 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 (calculated based on the average closing price of Archipelago's stock on ArcaEx for the ten trading days prior to the PCX Holdings acquisition), plus $24.6 million.

PCX Holdings operates an exchange for trading options as well as provides self regulatory services, including regulatory and market management services, for options and equity trading. The PCX Holdings acquisition will enable Archipelago to offer all-electronic trading of equity securities as well as equity options, and to expand and diversify the Archipelago's business lines and products.

Even though the PCX Holdings acquisition was consummated on September 26, 2005, for financial reporting purposes management deemed the assets and liabilities of PCX Holdings as of September 30, 2005 to be the basis for allocation of the purchase price. As such, the assets and liabilities of PCX Holdings have been included in Archipelago's consolidated statement of financial condition as of September 30, 2005. However, the results of operations of PCX Holdings have been included in Archipelago's results of operations since October 1, 2005. The results of operations of PCX Holdings for the four-day period ended September 30, 2005 were not material.

The purchase price was allocated to those assets acquired and liabilities assumed based on the estimated fair value of PCX Holdings' net assets as of September 30, 2005. The following is a summary of the preliminary allocation of the purchase price in the PCX Holdings acquisition (dollars in thousands):

Purchase price	$	90,863
Acquisition costs		3,167
Total purchase price	$	94,030
Historical cost of net assets acquired	$	54,316
Reversal of deferred revenues		20,431
Write-down of fixed assets		(10,673)
National securities exchange registration		17,728
Liabilities for exit and termination costs		(11,480)
Deferred tax impact of purchase accounting adjustments		23,708
Total purchase price	$	94,030

Liabilities for exit and termination costs are primarily associated with employee terminations, including accrued severance benefits and costs related to change in control provisions of certain PCX Holdings employment contracts. In 2005, Archipelago paid an aggregate of $5.9 million in connection with these change in control provisions and severance benefits. Based upon current severance dates, Archipelago expects to pay the $5.6 million balance by September 30, 2006.

The allocation of the purchase price to PCX Holdings' assets and liabilities are only preliminary allocations based on estimates of fair values and will change when estimates are finalized. Therefore, the information above is subject to change pending the final allocation of purchase price.

The following represents the summary unaudited pro forma condensed combined results of operations as if the PCX Holdings acquisition had occurred at the beginning of each of the periods presented (dollars in thousands, except per share data):

	Year ended December 31,	
	2005	2004
Total revenues	$ 539,581	$ 540,201
Income from continuing operations	10,527	48,196
Net income attributable to common stockholders	14,340	50,124
Basic earnings per share from continuing operations	$ 0.23	$ 1.25
Basic earnings per share	$ 0.31	$ 1.30
Diluted earnings per share from continuing operations	$ 0.23	$ 1.17
Diluted earnings per share	$ 0.31	$ 1.21

In October 2004, Archipelago entered into a financial advisory services engagement with a related party stockholder, under which the related party stockholder agreed to perform financial advisory services in relation to the PCX Holdings acquisition. In January 2006, Archipelago made a $0.5 million payment under this agreement.

Note 5 Discontinued Operations

On September 22, 2005, the SEC entered an order granting approval of the proposed rule change to amend the certificate of incorporation of PCX Holdings, Pacific Exchange Rules, and the Bylaws of Archipelago in relation to the PCX Holdings acquisition. Under the SEC order, Archipelago undertook to divest Wave, its wholly owned subsidiary providing agency brokerage services for institutional customers seeking to access ArcaEx and other U.S. market centers electronically.

On January 23, 2006, Archipelago entered into a definitive agreement to sell Wave to a related party stockholder. On March 3, 2006, Archipelago completed the sale of Wave.

The results of operations and financial position of Wave are presented as discontinued operations in the consolidated financial statements. All historical periods presented have been restated to reflect such presentation.

Summarized selected financial information for discontinued operations was as follows (in thousands):

	Year ended December 31,		
	2005	2004	2003
Revenues	$ 40,975	$ 74,201	$ 79,908
Income before income tax provision	$ 6,526	$ 13,217	$ 14,670
Income tax provision	2,713	1,670	
Income from discontinued operations	$ 3,813	$ 11,547	$ 14,670

The major assets and liabilities of discontinued operations were as follows (in thousands):

	Year ended December 31,	
	2005	2004
Cash and cash equivalents	$ 10,975	$ 32,708
Accounts receivable, net	2,129	2,404
Fixed assets, net	684	4,758
Other assets	369	302
Assets of discontinued operations	$ 14,157	$ 40,172
Accounts payable and accrued expenses	$ 9,457	$ 15,285
Liabilities of discontinued operations	$ 9,457	$ 15,285

Note 6 Fixed Assets

Fixed assets consisted of the following (in thousands):

	December 31,	
	2005	2004
Software, including software development costs of $32,632 and $27,026	$ 56,061	$ 39,519
Computers and equipment	57,107	29,097
Leasehold improvements	25,643	17,618
Equipment under capital leases	19,697	18,070
Routers	5,696	1,054
Furniture and fixtures	3,857	2,125
	168,062	107,483
Accumulated depreciation and amortization	(100,971)	(62,745)
	$ 67,091	$ 44,738

Archipelago capitalized software development costs of approximately $5.6 million and $2.5 million in 2005 and 2004, respectively. For the years ended December 31, 2005, 2004 and 2003, Archipelago directly expensed software development costs of approximately $4.3 million, $3.6 million and $6.9 million, respectively, as these costs were incurred outside of the application development stage.

In June 2003, Archipelago determined that certain software and computer equipment would be retired by March 2004 and, therefore, Archipelago accelerated depreciation on these assets. For the years ended December 31, 2004 and 2003, Archipelago recorded approximately $6.2 million and $13.8 million in depreciation on these assets as opposed to approximately $8.0 million and $7.6 million, respectively, had the depreciation period not been accelerated. As of March 31, 2004, the net book value of these assets was reduced to zero.

Note 7 Goodwill and Other Intangible Assets

Goodwill

In March 2002, Archipelago acquired REDIBook in a transaction accounted for as a purchase business combination. Approximately $20.8 million of the $150.5 million purchase price was assigned to the net tangible and intangible assets acquired, with the remaining value of $129.7 million ascribed to goodwill. In August 2004, Archipelago issued contingent consideration to former REDIBook members in the form of 192,194 shares of Archipelago's common stock valued at $11.50 per share and recorded $2.2 million of additional goodwill.

Other Intangible Assets

Other intangible assets consisted of the following (in thousands):

	December 31,	
	2005	**2004**
National securities exchange registration	$ 107,728	$ 90,000
Other (net of accumulated amortization of $4,431 and $2,711)	1,025	2,169
Other intangible assets, net	$ 108,753	$ 92,169

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.

In September 2005, Archipelago acquired PCX Holdings and its subsidiaries, including PCX Equities. As part of the preliminary allocation of the purchase price in the PCX Holdings acquisition, Archipelago valued the eligibility to earn market data fees related to the PCX Holdings' option trading business at $17.7 million.

The national securities exchange registration allows Archipelago to (i) generate revenues from market data fees (both from equity and option trading activities) and listing fees, and (ii) to reduce its costs since clearing charges are not incurred for trades matched internally on ArcaEx.

Archipelago determined that the national securities exchange registration has an indefinite life and, as such, it is not subject to amortization.

Note 8 Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consisted of the following (in thousands):

	December 31,	
	2005	2004
Trade payables	$ 11,761	$ 4,520
Accrued compensation	775	13,720
Payroll taxes payable	8,257	122
Deferred revenue	8,117	1,220
Accrued severance	5,596	
Other accrued liabilities	14,176	4,112
Total	$ 48,682	$ 23,694

Note 9 Stockholders' Equity

Common Stock

Prior to its reorganization from a Delaware limited liability company to a Delaware corporation on August 11, 2004, Archipelago had three classes of common shares outstanding: Class A, Class B and Class C. The common shares ranked *pari passu* with regards to liquidation and distribution. Class A shares had voting rights, while Class B and C shares had no voting rights. As part of the conversion transaction, all of the Class A, Class B and Class C shares were converted to common stock.

Redeemable Convertible Preferred Shares

On November 12, 2003, Archipelago issued 16,793,637 Class A Preferred Shares, which were a newly-created class of voting shares, at $2.98 per share, for total consideration of $50,000,000. Archipelago incurred approximately $1.6 million in transaction costs in conjunction with this issuance. The Class A Preferred Shares converted automatically into 4,449,268 shares of common stock upon consummation of Archipelago's IPO in August 2004. Included in this conversion was the issuance of 717,349 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 treated as a deemed dividend on convertible preferred shares, which was reported after net income to reach net income attributable to common stockholders in the consolidated statement of operations for the year ended December 31, 2004.

Common Stock Held in Treasury

As of December 31, 2005, Archipelago held 1,801,921 million shares of its common stock in treasury, including 1,645,415 shares repurchased as part of the PCX Holdings acquisition.

Employee and Non Employee Director Stock and Benefit Plans

Archipelago has three long-term incentive plans (the "Plans") that provide for the granting of stock options and restricted stock units to officers, key employees and non-employee directors. The objectives of the Plans include attracting and retaining the best personnel, providing for additional performance incentives, and promoting the success of Archipelago by providing employees the opportunity to acquire common stock. The stock options and restricted stock units ("RSUs") granted under the Plans generally vest over four years. Stock option awards have a term of ten years.

Stock Options

A summary of the stock option activity under the Plans is as follows:

	Number of Options	Weighted Average Exercise Price
Outstanding at January 1, 2003	559,111	$ 20.25
Granted	1,261,694	10.92
Forfeited	(40,111)	20.25
Outstanding at January 1, 2004	1,780,694	13.64
Granted	811,479	11.50
Exercised	(3,166)	4.91
Forfeited	(25,920)	15.38
Outstanding at January 1, 2005	2,563,087	12.96
Granted	192,942	19.30
Exercised	(144,504)	11.93
Forfeited	(19,441)	16.85
Outstanding at December 31, 2005	2,592,084	13.46

In August 2003, Archipelago issued stock options with an exercise price of $4.91, a price lower than the fair value of Archipelago's stock, which was estimated to be $6.26. Archipelago recognized compensation expense related to the issuance of these options in the consolidated statement of operations for the years ended December 31, 2003 and 2004 of $0.3 million and $0.2 million, respectively.

Additional information regarding stock options outstanding as of December 31, 2005 is as follows:

Options Outstanding				Options Exercisable	
Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 4.91	296,803	7.61	$ 4.91	277,092	$ 4.91
11.50	784,846	8.61	11.50	185,262	11.50
13.41	877,780	7.88	13.41	433,346	13.41
19.30	192,942	9.21	19.30		19.30
20.25	439,713	4.64	20.25	439,713	20.25
	2,592,084	7.62	$ 13.46	1,335,413	$ 13.63

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Restricted Stock Units

RSUs are grants that entitle the holder to shares of common stock as the award vests.

A summary of the restricted stock unit activity with officers and key employees under the Plans is as follows:

	Number of RSUs
Outstanding at January 1, 2005	
Granted	533,873
Vested	(401,475)
Outstanding at December 31, 2005	132,398
Weighted average fair value per share for RSUs granted during the year	$ 25.91

The fair market value at the date of grant of the RSUs is amortized over the vesting period using the straight line method. For the year ended December 31, 2005, Archipelago recorded stock-based compensation expense of $11.1 million, including $3.6 million in relation to the regular vesting of RSUs (which is included in other employee compensation and benefits in the consolidated statement of operations) and $7.5 million in connection with the acceleration of vesting of certain RSUs (which is included in NYSE merger and related executive compensation in the consolidated statement of operations).

On December 30, 2005, Archipelago entered into agreements with each of its executive officers that accelerated, among other things, vesting of 401,475 RSUs that would have occurred in 2006 after the completion of the merger or, in the case of one executive, upon the sale of Wave.

As part of their compensation, Archipelago's non-employee directors received an annual RSU grant valued at $75,000 based upon the fair market of Archipelago's share of common stock on the date of grant. In addition, non-employee directors were permitted to elect to take all or a portion of their $75,000 cash retainer in RSUs, calculated by taking 110% of the $75,000 cash retainer, or $82,500, divided by the fair market of Archipelago's share of common stock on the date of grant. For the years ended December 31, 2005 and 2004, Archipelago granted 33,586 and 47,076 RSUs to its non-employee directors, respectively. On March 7, 2006, Archipelago issued 55,041 shares of common stock to non-employee directors under those restricted stock awards.

Note 10 Related Party Transactions

The following is a summary of the related party transactions involving Archipelago and certain former members (*i.e.*, owners of Holdings LLC prior to the IPO) and current stockholders (*i.e.*, stockholders of

Archipelago after the IPO), the Pacific Exchange and other affiliates as part of its operations (in thousands):

	Year ended December 31,		
	2005	2004	2003
Revenues			
Transaction fees earned from stockholders/former members and affiliates[1]	$ 165,891	$ 188,559	$ 165,292
Market data fees (net of amounts shared with customers of $17,919, $21,516 and $10,196)[2]	21,446	23,986	10,041
Expenses			
Liquidity payments to stockholders/former members and affiliates[1]	59,779	53,517	43,702
Routing charges:			
Routing fees paid to former stockholder/member[3]	14,762	45,291	52,989
Routing fees for listed securities paid to stockholders/former members[4]	1,373	1,411	2,851
Clearance, brokerage and other transaction expenses:			
The Pacific Exchange's cost of obtaining market data[5]			154
Clearing services provided by a stockholder/former member[6]	344	10,642	32,110
Management fees paid to a stockholder/former member for support of REDIBook ECN[7]			4,502
Regulatory services fees[8]	6,066	7,209	5,492
Registered representative fees[8]	(3,739)	(4,485)	(4,672)
NYSE merger costs and related executive compensation			
Valuation analysis and other services provided by a stockholder[9]	3,500		
Communications:			
Software related services provided by an affiliate (net of amounts charged to customers of $3,980, $4,654 and $3,856)[10]	1,780	1,209	1,032
Marketing and promotion:			
Business development costs[11]		357	528
Legal and professional:			
Professional fees for services provided by an affiliate[12]	1,800	1,638	1,000
Consulting fees for services from a firm whose principal serves a director of Archipelago[13]	600	350	

(1) Certain stockholders/former members of Holdings LLC and affiliates execute transactions through ArcaEx, and previously through Archipelago's ECN, and are charged a transaction service fee by Archipelago for such activities. Liquidity payments are made to stockholders/former members of Holdings LLC and affiliates in relation to such transaction fees.

(2) Archipelago participates in the consolidation, dissemination and sale of market data in U.S. exchange-listed securities and Nasdaq-listed securities through ArcaEx. In connection with those plans, Archipelago receives market data fees, based on the level of trading activity on ArcaEx, for providing data to centralized aggregators that in turn sell the data to third-party consumers. The Pacific Exchange is a direct participant in the plans governing the consolidation and dissemination of market data and as a direct participant in these plans collects tape revenues for trading activities on ArcaEx. Prior to the PCX Holdings acquisition, Archipelago was entitled to all tape revenues earned in connection with trading activities on ArcaEx.

(3)
A former stockholder/member of Holdings LLC received routing fees for trades executed through ArcaEx, that ultimately route through to the former stockholder/member's ECN.

(4)
Certain stockholders/former members of Holdings LLC provide routing services for listed securities through the New York Stock Exchange, Inc. on behalf of Archipelago.

(5)
The Pacific Exchange is a consumer of consolidated market data collected and sold under the above discussed plans. Between April 2002 and December 2003, Archipelago agreed to cover the Pacific Exchange's cost of obtaining consolidated market data by reducing the amount of market data fees to which Archipelago was entitled under the facility services agreement by the amount of the Pacific Exchange's cost for obtaining consolidated market data for use in connection with its options trading floor.

(6)
Archipelago clears certain of its transactions through a stockholder/former member of Holdings LLC/clearing broker.

(7)
Archipelago had a servicing agreement with a stockholder/former member of Holdings LLC/clearing broker for them to provide for the development, operation, management and support of the REDIBook ECN until trading in ArcaEx commenced, for which Archipelago paid a monthly fee.

(8)
Prior to the PCX Holdings acquisition, the Pacific Exchange provided certain regulatory services to Archipelago in return for regular payments (as negotiated between the parties) and forwarded registered representative fees received from the NASD to Archipelago.

(9)
Archipelago entered into a letter agreement with a stockholder under which the stockholder agreed to perform certain services in relation to the merger of Archipelago and the NYSE.

(10)
An affiliate provides software related services to Archipelago, a portion of which is charged to Archipelago's customers.

(11)
Archipelago paid rental fees for the yacht that it leased for certain business development functions, which is operated by the domestic partner of a sister of a member of management.

(12)
An affiliate provides software related services to Archipelago.

(13)
Archipelago signed an agreement on June 1, 2004 with a consulting firm whose principal serves as a director of Archipelago. The consulting agreement provided for a minimum fee of $150,000 per quarter. Archipelago terminated this agreement effective as of March 31, 2006.

In connection with the IPO, Archipelago paid commission, consisting primarily of underwriting discounts, to certain stockholders/former members of Holdings LLC totaling approximately $4.4 million for the year ended December 31, 2004.

In October 2004, Archipelago entered into a financial advisory services engagement with a stockholder affiliate, under which the affiliate agreed to perform financial advisory services to Archipelago in relation to the PCX Holdings acquisition. In January 2006, Archipelago made a $0.5 million payment under this agreement.

An affiliate provided software development services to Archipelago in the amount of $1.5 million and $4.0 million for the years ended December 31, 2004 and 2003, respectively.

In the opinion of management, transactions were made at customary rates and negotiated terms and conditions, and do not involve more than the normal risk of collectibility or present other unfavorable features.

Receivables from related parties consisted of the following (in thousands):

	December 31,	
	2005	2004
Transaction fees due from related parties	$ 20,369	$ 21,064
Other fees due from related parties		2,820
Market data fees due from the Pacific Exchange		16,401
Other	2,935	2,626
	$ 23,304	$ 42,911

Payables to related parties consisted of the following (in thousands):

	December 31,	
	2005	2004
Routing charges due to related party	$	$ 7,137
Fees due to the Pacific Exchange		6,356
Other fees due to related party		1,339
Clearing charges and other fees due to affiliate broker		684
Consulting, software and connectivity fees due to affiliate	306	502
Exchange fees due to related party	95	157
Other	1,273	3,448
	$ 1,674	$ 19,623

At December 31, 2005 and 2004, cash and cash equivalents held at affiliated financial institutions amounted to $0.6 million and $0.1 million, respectively.

Note 11 Computation of Earnings Per Share

The following is a reconciliation of the basic and diluted earnings per share computations (in thousands except per share data):

	Year ended December 31,		
	2005	2004	2003
Net income attributable to common stockholders for basic and diluted earnings per share	$ 16,319	$ 59,321	$ 1,773
Shares of common stock and common stock equivalents:			
Weighted average shares used in basic computation	46,806	40,301	36,169
Dilutive effect of:			
Preferred shares converted to common in August 2004		2,284	500
Stock options and restricted stock units	1,015	330	311
Weighted average shares used in diluted computation	47,821	42,915	36,980
Basic earnings per share	$ 0.35	$ 1.47	$ 0.05
Diluted earnings per share	$ 0.34	$ 1.38	$ 0.05

At December 31, 2004 and 2003, approximately 0.5 million and 1.4 million securities, respectively, were excluded from the computation of diluted earnings per share because their effect would have been antidilutive.

Note 12 Income Taxes

The income tax provision consisted of the following (in thousands):

	Year ended December 31,		
	2005	2004	2003
Current:			
Federal	$ 6,573	$ 5,407	$
State and Local	1,346	1,719	
Deferred:			
Federal	984	(1,430)	
State and Local	446	(410)	
Income tax provision	$ 9,349	$ 5,286	$

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Significant components of Archipelago's deferred tax assets and liabilities were as follows (in thousands):

	December 31,	
	2005	2004
Deferred tax assets:		
Net operating loss carryforwards	$ 11,835	$ 1,444
Deferred revenue	2,465	
Pacific Exchange exit and termination costs	1,961	
Allowance for doubtful accounts	497	1,269
Valuation allowance	(1,279)	(1,444)
Bonuses		3,826
Other	2,171	339
Total deferred tax assets	17,650	5,434
Deferred tax liabilities:		
National securities exchange registration	7,065	
Software development costs	2,451	267
Depreciation and amortization	796	3,328
Total Deferred tax liabilities	10,312	3,595
Deferred tax asset, net	$ 7,338	$ 1,839

As of December 31, 2005, Archipelago had approximately $29.9 million of net operating losses for Federal and State tax purposes ("NOL"), which will begin to expire in 2021. A full valuation allowance was recorded against approximately $1.3 million tax effect of certain NOLs as it appears more likely than not that the corresponding asset will not be realized due to certain tax limitations. There is no valuation allowance recorded against any of the remaining deferred tax assets based on management's belief that it is more likely than not that such assets will be realized. Archipelago does not have any deferred tax assets related to Holdings LLC's net operating losses, as those losses were incurred when Archipelago was treated as a partnership for federal income tax purposes.

The effective tax rate varied from the U.S. Federal statutory income tax rate due to the following:

	Year ended December 31,		
	2005	2004	2003
Federal statutory rate	35.0%	35.0%	35.0%
State, net of Federal tax benefit	5.3	1.8	
NYSE merger costs	12.3		
Tax exempt interest	(4.6)		
Benefit from deferred taxes(1)		(5.7)	
Former members' income(2)		(23.1)	(35.0)
Other	(5.2)	0.4	
Effective tax rate	42.8%	8.4%	%

(1) Archipelago recognized a $3.8 million net deferred tax asset for temporary differences when Holdings LLC converted into a Delaware corporation on August 11, 2004. The corresponding deferred tax benefit lowered Archipelago's effective tax rate for the year ended December 31, 2004.

(2) For the income earned from the date of the conversion to a Delaware corporation through December 31, 2004, Archipelago provided for income taxes based on a 41.5% combined tax rate. Prior to August 12, 2004, all income taxes were paid by Holdings LLC's former members.

Note 13 Segment Reporting

Prior to the PCX Holdings acquisition, Archipelago operated in two reportable segments: Transaction Execution Services and Agency Brokerage Services.

Transaction Execution Services consisted primarily of transaction execution services, market data services on a real-time or summary basis and, through the Archipelago's alliance with the Pacific Exchange, a trading venue for issuers of equity securities, exchange traded funds and structured products. Under Pacific Exchange rules, issuers are listed on the Pacific Exchange for trading on ArcaEx. The customers in this segment are required to hold an ETP or be a broker-dealer introduced to ArcaEx by an ETP. An ETP holder must be a broker-dealer.

Agency Brokerage Services were provided through Wave and consisted of order execution services, on an agency basis, for orders received from institutions involving primarily Nasdaq and listed securities. This segment provided institutions that are not ETP holders or are not sponsored by ETP holders access to all U.S. Nasdaq and exchange-listed securities markets through ArcaEx. Because Wave's operations are presented as discontinued, Archipelago is no longer required to disclose the information required by SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information".

Following the PCX Holdings acquisition, Archipelago operates in the following two reportable segments: ArcaEx Equities and ArcaEx Options.

ArcaEx Equities consists primarily of the reportable segment formerly named Transaction Execution Services.

ArcaEx Options consists primarily of transaction execution services, market data services on a real-time or summary basis and a trading venue for issuers of option products. The customers in this segment are required to hold an Option Trading Permit ("OTP"). An OTP holder must be a broker-dealer or associated with a broker dealer.

Revenues are generated primarily in the United States of America. Revenues derived from one stockholder/former member of Holdings LLC and its affiliates represented approximately 9.6%, 10.2% and 14.2% of the revenues from continuing operations for the years ended December 31, 2005, 2004 and 2003, respectively. All of Archipelago's long lived assets are located in the United States of America.

Summarized financial information concerning Archipelago's reportable segments is as follows (in thousands):

	ArcaEx Equities	ArcaEx Options	Eliminations	Consolidated
Year ended December 31, 2005				
Revenues	$ 525,195	$ 16,797	$ (648)	$ 541,344
Depreciation and amortization	19,896	1,735		21,631
Expenses	512,284	12,311	(648)	523,947
Operating income	12,911	4,486		17,397
Identifiable assets of continuing operations (as of December 31)	462,350	115,289	(12,002)	565,637

Note 14 Commitments and Contingencies

In the normal course of conducting its business, Archipelago has been involved in various legal proceedings. In the opinion of management, after consultation with legal counsel, the ultimate outcome of pending litigation matters will not have a material adverse effect on the financial condition or results of operations of Archipelago.

Archipelago leases office space under non-cancelable operating leases and certain computer equipment under capital leases. The future minimum commitments under these non-cancelable leases at December 31, 2005 were as follows (in thousands):

Year ending December 31,		
2006	$	9,352
2007		8,093
2008		7,016
2009		4,967
Thereafter		13,779
Net minimum lease payments	$	43,207

Total rent expense, including real estate taxes and common area maintenance, was approximately $7.1 million, $4.6 million and $4.2 million for the years ended December 31, 2005, 2004 and 2003, respectively. The rent expense is recorded net of sublease payments received of approximately $0.2 million and $0.5 million for the years ended December 31, 2005 and 2004, respectively.

Archipelago applies the provisions of the Financial Accounting Standards Board's Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees of Indebtedness of Others," which provides accounting and disclosure requirements for certain guarantees. Archipelago has agreed to indemnify its clearing brokers for losses that they may sustain from customer accounts introduced by Archipelago. However, Archipelago has not had prior claims or losses pursuant to these contracts and expects the risk of loss to be remote. As such, Archipelago has not recorded any liability related to this indemnification. Archipelago is unable to quantify the potential exposure related to the indemnification as it constantly fluctuates based on the number and size of the unsettled transactions outstanding and the difference between the contractual trade price and the current fair value of the stock underlying the unsettled transactions.

Note 15 Net Capital Requirements

Wave, Archipelago Securities, L.L.C. ("ARCAS"), ATSI and Archipelago Brokerage Services, LLC ("ABS") are registered broker-dealers and are subject to net capital requirements under SEC Rule 15c3-1. Wave, ATSI and ABS compute their net capital using the basic method. Under this method, these subsidiaries must maintain minimum net capital (as defined) and the ratio of aggregate indebtedness (as defined) to net capital may not exceed 15 to 1. ARCAS computes its net capital under the alternative method. This method requires that minimum net capital not be less than the greater of $250,000 or 2% of aggregate debit items arising from customer transactions.

As of December 31, 2005 and 2004, these subsidiaries were in compliance with their respective net capital requirements and their net capital, net capital in excess of required net capital, and ratio of aggregate indebtedness to net capital were as follows (in thousands, except ratios):

	December 31,	
	2005	2004
Net capital		
Wave	$ 5,027	$ 19,427
ARCAS	13,063	7,043
ATSI	5,671	2,652
ABS	405	N/A
Net capital in excess of required net capital		
Wave	$ 4,497	$ 18,519
ARCAS	12,813	6,793
ATSI	5,589	2,485
ABS	400	N/A
Ratio of aggregate indebtedness to net capital		
Wave	1.58 to 1	0.70 to 1
ARCAS	N/A	N/A
ATSI	0.22 to 1	0.94 to 1
ABS	N/A	N/A

Advances to affiliates, dividend payments and other equity withdrawals are subject to certain notification and other provisions of the net capital rule of the SEC and other regulatory bodies.

Archipelago's international broker-dealer subsidiaries are subject to capital adequacy requirements promulgated by authorities of the countries in which they operate. As of December 31, 2005 and 2004, these subsidiaries had met their local capital adequacy requirements.

Explanation of Responses:

QuickLinks