

NYSE Euronext
Form 10-K/A
May 01, 2007
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 1 to
Form 10-K

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

For the fiscal year ended December 31, 2006

Commission File Number: 001-368007

NYSE Euronext

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

11 Wall Street

New York, N.Y.
(Address of principal executive offices)

20-5110848
(I.R.S. employer

identification no.)

10005
(Zip Code)

(212) 656-3000

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: None

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of the Annual Report on Form 10-K or any amendment to the Annual Report on Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The registrant's common stock began trading on the New York Stock Exchange on April 4, 2007. As such, the registrant has not completed its second fiscal quarter in which its common equity was publicly traded. As of April 27, 2007, the aggregate market value of the registrant's voting stock held by non-affiliates computed by reference to the price at which the common stock last sold was approximately \$22.3 billion. As of April 27, the registrant had approximately 263.9 million shares of common stock, par value of \$0.01 per share, outstanding.

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NYSE EURONEXT

AMENDMENT NO. 1 TO

ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006

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REASON FOR FILING THIS FORM 10-K AMENDMENT NO. 1

NYSE Euronext originally filed its annual report on Form 10-K on March 22, 2007 (the Original Filing), prior to the consummation of the combination of NYSE Group and Euronext on April 4, 2007. This Amendment No. 1 to Form 10-K is being filed solely to reflect NYSE Euronext on a post-combination basis as a convenience for our investors who will receive this document in connection with our 2007 annual meeting of stockholders. The audited financial statements for NYSE Euronext, NYSE Group, Inc. and Euronext N.V., as well as the unaudited pro forma condensed combined financial statements of NYSE Euronext, contained in this Amendment No. 1 to Form 10-K are identical to those filed previously with the SEC.

As a result, the certifications pursuant to Section 302 and Section 906 of the Sarbanes-Oxley Act of 2002, filed and furnished, respectively, as exhibits to the Original Filing, have been re-executed and re-filed as of the date of this Form 10-K Amendment No. 1.

CERTAIN TERMS

Throughout this document, unless otherwise specified or if the context otherwise requires:

Archipelago refers to Archipelago Holdings, Inc., a Delaware corporation, and its subsidiaries and, where the context requires, its predecessor, Archipelago Holdings, LLC, a Delaware limited liability company and its subsidiaries;

combination agreement refers to the Combination Agreement, dated as of June 1, 2006, as amended and restated as of November 24, 2006, by and among NYSE Group, Euronext, NYSE Euronext, and Jefferson Merger Sub, Inc., a Delaware corporation and a newly formed, wholly owned subsidiary of NYSE Euronext;

Euronext refers to Euronext N.V., a company organized under the laws of the Netherlands, and its subsidiaries;

NYSE refers to (1) prior to the completion of the merger between the New York Stock Exchange, Inc. and Archipelago, which occurred on March 7, 2006, New York Stock Exchange, Inc., a New York Type A not-for-profit corporation and a registered U.S. national securities exchange, and (2) after the completion of such merger on March 7, 2006, New York Stock Exchange LLC, a New York limited liability company and a registered U.S. national securities exchange, and, where the context requires, its subsidiaries, NYSE Market, Inc., a Delaware corporation, and NYSE Regulation, Inc., a New York not-for-profit corporation;

NYSE Arca refers to NYSE Arca, L.L.C., a Delaware limited liability company (formerly known as Archipelago Exchange, L.L.C.), and NYSE Arca, Inc., a Delaware corporation (formerly known as the Pacific Exchange, Inc.), and NYSE Arca Equities, Inc., a Delaware corporation (formerly known as PCX Equities, Inc.);

NYSE Arca, Inc., where that specific term is used, refers to the entity registered as a U.S. national securities exchange (formerly known as the Pacific Exchange, Inc.);

NYSE Group refers to NYSE Group, Inc., a Delaware corporation, and its subsidiaries; and

NYSE Euronext we, us and our refers to NYSE Euronext, a Delaware corporation, and its subsidiaries.

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FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains statements and from time to time our management may make statements that may constitute forward-looking statements within the meaning of the safe harbor provisions of The Private Securities Litigation Reform Act of 1995. In some cases, you can identify these statements by forward-looking words such as may, might, will, should, expect, plan, anticipate, believe, predict, potential or continue, and the negative of these terms and other comparable terminology. These forward-looking statements, which are subject to known and unknown risks, uncertainties and assumptions about us, may include projections of our future financial performance based on our growth strategies and anticipated trends in our business. These statements are only predictions based on our current expectations and projections about future events. There are important factors that could cause our actual results, level of activity, performance or achievements to differ materially from the results, level of activity, performance or achievements expressed or implied by the forward-looking statements. In particular, you should consider the numerous risks and uncertainties described under Item 1A. Risk Factors.

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

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

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

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

our business strategies and investment policies;

our business financing plans and the availability of capital;

our business competitive position;

potential growth opportunities available to our business;

the risks associated with potential acquisitions or alliances by us;

the recruitment and retention of our officers and employees;

our expected levels of compensation;

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

the likelihood of success and impact of litigation;

our protection or enforcement of our intellectual property rights;

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

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

our ability to keep up with rapid technological change; and

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

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

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

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PART I

ITEM 1. BUSINESS

NYSE Euronext was organized on May 22, 2006. As of December 31, 2006 and up until April 4, 2007, NYSE Euronext had no assets (other than the \$100.00 it received on June 1, 2006 from the sale of one share of its common stock to NYSE Group) and had not conducted any material activities other than those incident to its formation. However, on April 4, 2007, upon the consummation of the combination, NYSE Euronext became the parent company of NYSE Group and Euronext and each of their respective subsidiaries. The address of NYSE Euronext's principal executive office is 11 Wall Street, New York, New York 10005. Its telephone number is (212) 656-3000.

NYSE Group

NYSE Group operates and regulates two securities exchanges: the NYSE and NYSE Arca, Inc. NYSE Group is a leading provider of securities listing, trading and related information products and services. NYSE Group was formed in connection with the merger of the NYSE and Archipelago, which was completed on March 7, 2006. Although the trading platforms of the NYSE and NYSE Arca currently operate separately, we are actively integrating some of their activities to achieve revenue and cost synergies.

The NYSE. The NYSE is the world's largest and most liquid cash equities exchange. The NYSE provides a reliable, orderly, liquid and efficient marketplace where investors meet directly to buy and sell listed companies' common stock and other securities. For 214 years, the NYSE has facilitated capital formation, serving a wide spectrum of participants, including individual and institutional investors, the trading community and listed companies. As of December 31, 2006, 2,713 issuers, which include operating companies, closed-end funds and exchange traded funds (ETFs), were listed on the NYSE, and the NYSE's listed operating companies represent a total worldwide market capitalization of over \$25.1 trillion. During 2006, on an average trading day, approximately 1.67 billion shares, valued at over \$63.0 billion, were traded on the NYSE. The NYSE operates a hybrid market in which orders are electronically transmitted for execution. Specialists on the trading floor are charged with maintaining fair, orderly and continuous trading markets in specific stocks by bringing buyers and sellers together and, when circumstances warrant, adding liquidity by buying and selling stock for their own account. Floor brokers act as agents on the trading floor to facilitate primarily large or complicated orders. We refer to this trading model as the NYSE Hybrid MarketSM.

NYSE Arca. NYSE Arca operates the first open, all-electronic stock exchange in the United States and has one of the leading market positions in the trading of exchange-listed securities and ETFs. NYSE Arca is also an exchange for trading equity options. Through NYSE Arca, customers can trade approximately 8,875 equity securities and over 152,000 option products. NYSE Arca's trading platforms link traders to multiple U.S. market centers and provide customers with fast electronic execution and open, direct and anonymous market access. The technological capabilities of NYSE Arca's trading systems, combined with its trading rules, have allowed NYSE Arca to create a large pool of liquidity that is available to customers internally on NYSE Arca and externally through other market centers. During 2006, on an average trading day, over 822 million shares, valued at over \$28.6 billion, were traded through NYSE Arca's trading platforms.

Securities Industry Automation Corporation (SIAC). SIAC has historically provided critical automation and communications services to the NYSE, the American Stock Exchange (AMEX) and other organizations to support order processing, trading and the reporting of market information, among other functions. SIAC also provides system support for certain national market system functions and for important regulatory and administrative activities.

NYSE Regulation. NYSE Group plays a critical role in the U.S. securities industry through its two self-regulatory organizations (SROs). As a not-for-profit company within NYSE Group, NYSE Regulation regulates the activities of members, member organizations and their employees through enforcement of SRO rules and

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federal securities laws. In addition, NYSE Regulation surveils the trading that occurs on the NYSE and NYSE Arca, Inc., and oversees compliance by listed companies with the financial and corporate governance listing standards of NYSE Group's two SROs.

For a discussion of our revenues and other financial information with respect to our reporting segments and geographic areas, see Item 8. Financial Statements and Supplemental Information Note 5 Segment Reporting.

Recent Acquisitions/Strategic Investments/Alliances

National Stock Exchange of India. On April 4, 2007, NYSE Group acquired a 5% equity position in the Mumbai-based National Stock Exchange of India Limited, the maximum investment permitted by any single foreign investor in a stock exchange under the securities regulations of India.

Tokyo Stock Exchange. On January 31, 2007, NYSE Group and Tokyo Stock Exchange, Inc. signed a letter of intent that established a strategic alliance to jointly develop and explore new opportunities in trading systems and technology, investor and issuer services, investment products, and governance and regulation. The agreement, which is non-exclusive, also may serve as a precursor for a potential capital alliance between NYSE Group and Tokyo Stock Exchange at some point in the future.

The NYSE and NYSE Arca

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

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

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

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

NYSE Arca, LLC and NYSE Arca Equities, Inc. NYSE Arca, LLC and NYSE Arca Equities operate an all electronic trading venue for (1) equity securities listed with NYSE Arca, Inc., the NYSE, Nasdaq and the American Stock Exchange, and (2) ETFs.

NYSE Arca, Inc. NYSE Arca, Inc. operates 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.

Listings Business

NYSE Group operates two listing platforms; NYSE and NYSE Arca, Inc. As of December 31, 2006, approximately 2,713 operating companies, closed-end funds and ETFs were listed on the NYSE. The NYSE's listed operating companies represented a combined global market capitalization of approximately \$25.1 trillion as of that date. In addition, approximately 544 structured products were listed on the NYSE as of that date. As of December 31, 2006, 28 of the 30 publicly traded companies that constitute the Dow Jones Industrial Average and 85.0% of the stocks included in the S&P 500 Index were listed on the NYSE. As of December 31, 2006, the NYSE's roster of listed companies included 451 non-U.S. companies from approximately 47 countries with a U.S.-publicly-held float of approximately \$1.3 trillion and a total global market capitalization of approximately \$9.7 trillion.

As of December 31, 2006, there were approximately 155 operating companies and ETFs listed on NYSE Arca, Inc. Thirty-three of the operating companies and ETFs were exclusively listed on NYSE Arca, Inc. and 103 operating companies were dually listed with the NYSE, the American Stock Exchange or Nasdaq. Many of the

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companies that were dually listed on NYSE Arca and the NYSE as of December 31, 2006 delisted from NYSE Arca during the first quarter of 2007 to avoid the need to pay annual fees to both the NYSE and NYSE Arca. These companies will remain listed solely on the NYSE.

Fees are paid by companies when they initially list on the NYSE and NYSE Arca, Inc. and annually thereafter, although companies transferring to the NYSE or NYSE Arca from another exchange are not subject to listing fees. Listing fees, which are subject to a minimum and maximum amount, are based on the number of shares that a company lists with the NYSE or NYSE Arca, Inc., as applicable. Annual fees are charged on the outstanding shares of the company at the end of each year and are subject to a minimum and maximum fee. Listed companies also pay fees in connection with corporate transactions involving the issuance of new shares, such as stock splits, rights issues, sales of additional securities and mergers and acquisitions. Non-U.S. companies pay fees based on the number of listed securities issued or held in the United States.

New Listings

NYSE Group relies on new listings to maintain its competitive position in the United States and global markets. From 2001 to 2006, 830 U.S. and international companies listed on the NYSE. This included 190 closed-end funds, 183 transfers from other markets, 58 spin-offs and 264 domestic operating company initial public offerings and 123 international operating company initial public offerings and quotations. Among the initial public offerings of securities of U.S. issuers that would have qualified to be listed on the NYSE from January 1, 2001 to June 30, 2006, the aggregate proceeds of initial public offerings listed on the NYSE represented approximately 90% of aggregate proceeds thus qualified. From 2001 to 2006, 121 companies transferred their listing from Nasdaq to the NYSE. During that same period, only five companies voluntarily transferred from the NYSE to Nasdaq. Two additional companies elected to transfer to Nasdaq in advance of SEC approval of recent amendments made to NYSE's continued listing standards that would have resulted in such companies being deemed below compliance. In addition, from March 8, 2006 (subsequent to the merger with Archipelago) through December 31, 2006, seven operating companies and 19 ETFs have listed on NYSE Arca, Inc.

A key to the NYSE's past success and future growth is its ability to list and retain non-U.S. companies. Generally, non-U.S. companies are attracted to the U.S. and the NYSE to take advantage of the deep and diverse U.S. investor base, the visibility among the worldwide financial community that accompanies a NYSE listing, and the enhanced credibility that may be conferred by investors and other parties on a company once listed on the NYSE. From 2001 to 2006, 167 non-U.S. companies listed on the NYSE.

The NYSE actively pursues new closed-end fund listings. From 2001 to 2006, 190 closed-end funds have listed on the NYSE, raising over \$88.1 billion in proceeds in their initial public offerings. This represents 76.3% of the funds qualified to list on the NYSE and 82.0% of the total closed-end fund qualified proceeds. As of December 31, 2006, 485 closed-end funds were listed on the NYSE.

Since 1988, the NYSE has also listed both debt and equity structured products such as capital securities, mandatory convertibles, repackaged securities and equity-linked index-linked securities and for debt securities traded on the trading floor. The number of new issuances and redemptions of these securities in any given year depends on many external factors, including interest rate levels and changes, economic conditions and financial regulation. As of December 31, 2006, 544 structured products, with an aggregate market value of \$139 billion, were listed on the NYSE.

NYSE Group is also at the forefront of growth in listing and trading ETFs. ETFs are open-end investment products listed and traded in the secondary marketplace by a broad range of investors. The U.S. ETF marketplace now has over 374 listings, of which NYSE Group had 135 listings as of December 31, 2006. On July 20, 2005, Barclays Global Investors, the largest issuer of ETFs, announced its intention to transfer up to 61 listings to the NYSE and 20 listings to NYSE Arca, Inc. from AMEX over the course of 2005-2007. As of December 31, 2006, 40 of these ETFs had transferred to the NYSE and 19 of the ETFs had transferred to NYSE Arca, Inc.

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Listing Standards

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

NYSE Group is leveraging the NYSE brand to continue to build NYSE Arca, Inc.'s listing business. NYSE Arca, Inc.'s listing standards extend the NYSE's current focus on quality companies to growing companies that initially do not meet the NYSE's stringent listing standards. NYSE Arca, Inc.'s listing venue provides issuers with many of the benefits that are provided to NYSE-listed companies, including an affiliation with one of the world's leading brands, exceptional market quality and a wide range of value added products and services. By leveraging the NYSE brand across two listings platforms, NYSE Group believes that we are better positioned to serve a broader segment of corporate issuers.

Client Service

NYSE Group has a team of professionals dedicated to serving the needs of its listed company community. These client service managers meet with their assigned listed companies individually and in regional executive forums that are organized by NYSE Group. They provide value by keeping issuers aware of market trends, market structure initiatives and developments in governance and regulation. NYSE Group believes that executives of listed companies place a high value on their relationship with their client service managers and on superior market quality, association with leading brands, global visibility, and unique marketing services that NYSE Group provides. Client retention is consistently very high (*i.e.* , greater than 99.9% for the period from 2001 to 2006).

NYSE Group offers a variety of services to its listed companies, including the ability to leverage the NYSE brand in reaching out to existing and prospective investors. It sponsors virtual forums, as well as domestic and international conferences, to provide issuers access to global institutional and retail investors. NYSEnet, a password-protected website for senior executives, provides data relating to proprietary trading, institutional ownership and market activity. The NYSE has also developed eGovDirect.comSM, an interactive, web-based tool that helps listed companies meet their NYSE governance and compliance requirements efficiently and economically; as of December 31, 2006, approximately 1,667 NYSE-listed companies and closed-end funds were registered for access to this site. In addition, NYSE Group believes that its executive forums and the opportunities they offer to network with policy makers and fellow corporate executives are highly valued by the leaders of NYSE and NYSE Arca, Inc.-listed companies. Moreover, NYSE Group uses a range of advertising media, including print and radio, among others, to promote its listed companies through a variety of ongoing campaigns.

Options Business

Through NYSE Arca, Inc., NYSE Arca operates a marketplace for trading options on exchange-listed securities. The underlying securities are listed and trade on NYSE Arca, Inc., the NYSE, AMEX and Nasdaq.

NYSE Arca's option market center includes the trading facilities, technology and systems for trading options as well as regulatory, surveillance and compliance services. It also qualifies the listing of options on stocks that meet certain minimum criteria. NYSE Arca's options business trades approximately 800,000 contracts each day on more than 2,000 underlying stocks.

NYSE Arca's options business uses a technology platform and market structure that is designed to enhance the speed and quality of trade execution for its customers and to attract additional sources of liquidity by allowing market makers to have access to its markets remotely and by integrating floor-based participants and

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remote market makers. On July 28, 2006, NYSE Arca, Inc. received SEC approval to operate a new platform for options called NYSE Arca Options trading with technology based on the architecture of its equities trading platform. NYSE Arca launched the NYSE Arca Options platform on August 7, 2006, and completed the rollout of almost 2,000 option issues to the new trading platform in October 2006. NYSE Arca Options replaced the PCX+ platform. The revenue from NYSE Arca's options business is primarily derived from transaction execution services and market data services provided on a real-time or summary basis.

NYSE Group refers to permitted users of NYSE Arca, Inc.'s options trading system as options trading permit holders. Any qualified broker-dealer who wishes to trade on NYSE Arca, Inc.'s options trading system may obtain an options trading permit from NYSE Arca, Inc.

Options Listing. Under the rules of NYSE Arca, Inc. in order to list an option on a stock, there must be at least seven million shares of the underlying stock available for public trading, with at least 2,000 holders of the security. In addition, there must be active public trading in the underlying stock, and that stock must meet certain minimum price tests. These rules also include specialized criteria for listing options on certain types of securities, such as shares of index funds or ETFs, trust-issued receipts and American Depositary Receipts. Compliance with these rules and criteria are monitored and determined by NYSE Arca, Inc.

Options Products. Options contracts are contracts with standardized terms that give the buyer the right, but not the obligation, to buy or sell a particular stock or stock index at a fixed price (the strike price) for a specified period of time (until the expiration date). Options are used in various ways by a range of investors with different goals and strategies, such as protecting equities portfolios by using options as a hedge and buying puts as a protection against unexpected declines in price, or speculating on the direction of a stock price by purchasing puts or calls in anticipation of a stock's directional movement and hope of return on risk.

Options Clearing and Settlement. All options contracts traded on NYSE Arca's options exchange as well as other U.S. securities exchanges are issued and cleared by The Options Clearing Corporation (OCC), a clearing corporation registered with the SEC and owned by member options exchanges, including NYSE Arca, Inc. The OCC, which issues and clears all U.S.-listed options, as well as certain futures and options on futures on a number of underlying financial assets, including common stocks, currencies, stock indices and interest rate composites, is among the world's largest clearing organizations for options and equity derivatives.

Options Transaction Fees. In conjunction with the rollout of the new options platform, NYSE Arca introduced a new pricing schedule that provides greater cost efficiencies for options investors. Currently, transaction fees for Market Makers are \$0.16 per contract; transaction fees for Lead Market Makers are \$0.09 per contract; and transaction fees for Electronic Broker Dealer transactions are \$0.50 per contract. One Options Trading Permit (OTP) for Market Makers is \$4,000 per month per OTP. Each OTP entitles market makers to quote in an expanded number of products of their choosing. Four Market Maker OTP permits, totaling \$16,000, allow trading in all exchange products. OTP firms acting as Lead Market Makers (LMM) are assessed a fee for LMM Rights on a per issue basis in addition to the OTP Trade Participant Rights. LMM Rights per issue range from \$150 to \$3,000 per month. OTP Rights for order entry firms increased from \$750 to \$1,000 per month. OTP Rights for Floor Brokers dropped from \$1,500 to \$1,000 per month.

On January 26, 2007, a pilot program, approved by the SEC, began operating among NYSE Arca, Inc. and various U.S. equity options exchanges to quote and trade options on thirteen listed equities and ETFs in penny increments, instead of the current industry standard of quoting and trading options in five or ten cent increments. In connection with this penny pilot program, NYSE Arca instituted a new pricing model for trading in the thirteen options included in the pilot as part of its ongoing effort to attract superior levels of liquidity and price discovery at its market center. Under the new pricing structure, penny pilot issues that trade electronically will be subject to fees that reward trading participants by providing them with a credit on all transactions that add liquidity. Specifically, market makers that have a resting order or quote will receive a \$0.30 per contract credit upon execution; broker dealers and retail customers will receive a \$0.25 per contract credit when their resting

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orders result in an execution. Under this new rate schedule, electronic penny pilot executions that take liquidity will be assessed \$0.50 per contract regardless of the trading participant. In addition, marketing charges will not be assessed on any penny pilot execution.

Fixed Income Business

The NYSE also operates a centralized bond market. A broad selection of bonds are traded on the NYSE, such as corporate (including convertibles), agency and government bonds. The trading volume of bonds on the NYSE is primarily in corporate bonds, with approximately 94% of this volume in non-convertible bonds. Bonds trade on the NYSE through NYSE BondsSM, a screen-based system launched in April 2007 used by NYSE member organization subscribers. NYSE BondsSM maintains and displays priced bond orders and matches those orders on a strict price and time-priority basis. It also reports real-time bids and offers with size and trades to our network of market data vendors.

On November 16, 2006, the SEC approved an exemption that allows NYSE members and member organizations to trade on an unlisted basis non-convertible corporate bonds issued by NYSE-listed equity issuers and their wholly owned subsidiaries. This will allow trading in approximately 5,000 bonds, compared to the approximately 820 bonds currently listed on the NYSE. The NYSE will be adding approximately 2,800 active corporate bonds that meet this SEC exemption over the next few months during Phase I of this initiative.

Indices & Index Services

Index Calculation Services. NYSE Arca offers an index calculation service for investment ideas that ultimately serves as the reference indicator for ETFs and other structured products. Custom index calculation is an important component to the development of traded products on the exchange, and allows the exchange to leverage its technology and understanding of traded products to better serve investors. Additionally, NYSE Arca provides various intra-day ETF fund valuation services to the ETF issuers and trading community. All of the Index Services are designed to offer our clients more tools and services to support the listing and trading.

NYSE Group Indices. NYSE Group has created nine benchmark indices. The NYSE established its first index, the NYSE Composite Index, in 1966 to provide a comprehensive measure of the performance of all of the common stocks listed on the NYSE. Four other NYSE-branded indices were launched in June 2002, followed by three single-sector indexes, all of which are composed entirely of NYSE-listed companies. The March 7, 2006 merger with Archipelago expanded the existing offerings with the addition of the NYSE Arca Tech 100 Index. The NYSE has licensed the NYSE Composite Index and the NYSE U.S. 100 Index to Barclays Global Investors, N.A. for use in replicating the performance of the indices in the iShares NYSE Composite Index Fund and the iShares NYSE U.S. 100 Index Fund.

The NYSE Composite Index is designed to measure the performance of all common stocks listed on the NYSE, including REITs, tracking stocks and common equity and ADR listings of foreign companies. The NYSE Composite consists of over 2,000 U.S. and non-U.S. stocks. The index utilizes a transparent, rule-based methodology that includes free-float market capitalization weighting. The float-adjusted market capitalization as of December 31, 2006 was more than \$20 trillion. All companies in the NYSE Composite have to meet the initial listing standards of the NYSE, providing a base level of quality for the index's potential components. In addition to serving as a broad-based benchmark, the NYSE Composite establishes a universe from which other NYSE-branded indices are derived.

The NYSE U.S. 100 Index is designed to measure the performance of the largest 100 U.S. stocks listed on the NYSE. The index had a market capitalization as of December 31, 2006 of over \$7.2 trillion. The component companies of this index, ranked by market capitalization, are major market participants, most of which are well known names.

The NYSE International 100 Index is designed to measure the performance of the largest 100 non-U.S. stocks listed on the NYSE. All 100 components are ADRs or shares of issuers from 19 different countries that trade on the NYSE. The index had a market capitalization as of December 31, 2006 of over \$5.7 trillion.

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The NYSE World Leaders Index consists of components from the NYSE U.S. 100 and the International 100 indices. It tracks the performance of 200 leading companies across 20 countries. The index had a market capitalization as of December 31, 2006 of approximately \$13.0 trillion.

The NYSE Sector Indexes, which include the NYSE Energy Index, NYSE Financial Index and NYSE Health Care Index, were designed to measure the performance of NYSE listed stocks representing the energy, financial and health care sectors. The NYSE Energy, NYSE Financial and NYSE Health Care indices represent \$2.54 trillion, \$5.46 trillion and \$1.96 trillion in market capitalization, respectively.

The NYSE TMT index measures the performance of the largest 100 NYSE-listed U.S. and non-U.S. stocks in three sectors: Technology, Media and Telecommunications (TMT). The index had a market capitalization as of December 31, 2006 of approximately \$2.1 trillion.

The NYSE Arca Tech 100 Index (formerly the ArcaEx Tech 100 Index) is a price weighted, broad based index of 100 securities, established in 1982. Modeled as a multi-industry technology index, the objective of the NYSE Arca Tech 100 Index is to provide a benchmark for measuring the performance of companies using technology innovation across a broad spectrum of industries: computer hardware, software, semiconductors, telecommunications, data storage and processing, electronics and biotechnology, to name just a few. NYSE Arca Tech 100 Index is a tech sector equivalent to the Dow Jones Industrial Average and is a market indicator used by mutual fund rating services, analysts, asset managers and private investors to gauge the overall performance of the technology sector of the U.S. equity market. On July 28, 2006, the Exchange Traded Trust filed a registration statement to create an ETF replicating the performance of the NYSE Arca Tech 100 Index.

Order Execution Business

One of NYSE Group's primary functions is to ensure that orders to purchase and sell securities are conducted in a reliable, orderly, liquid and efficient manner. Order execution occurs through a variety of means, and NYSE Group seeks to continue to develop additional and more efficient mechanisms of trade.

NYSE Group is in the unique position of offering its customers the option of using either floor-based auction trading or electronic trading. NYSE-listed stocks show consistently lower volatility and execution costs than comparable stocks listed on other venues. The NYSE generally produces the best quoted prices in NYSE-listed stocks and warrants, and offered the National Best Bid and Offer (NBBO) 81.5% of the time in 2006. During the same time period, NYSE Arca set the NBBO 8.3% of the time in NYSE-listed securities. On a combined basis, the market centers of the NYSE Group provided the best quoted prices in NYSE-listed stocks and warrants 89.8% of the time during 2006.

Through NYSE Arca, customers can trade equity securities, ETFs and other derivative products in an all-electronic environment. NYSE Arca also provides customers with a venue for trading equity options listed on exchanges. NYSE Arca's core trading technology platform is highly reliable, efficient, and scalable, and NYSE Group is actively leveraging this technology for use in other asset classes including options and fixed income. NYSE Arca's industry-leading system is designed to accept up to 38,000 orders per second and to provide up to 3,400 simultaneous customer connections. During 2006, the system handled an average of approximately 52.3 million orders daily and approximately 2.8 million trades daily, with a capacity to handle 20 million trades daily.

The NYSE Trading System

On March 22, 2006, the SEC approved the NYSE Hybrid MarketSM, which combines auction-based and electronic trading for equities listed on the NYSE. This initiative is NYSE Group's response to the request from both market professionals and individual investors for greater choice and flexibility in buying and selling stocks on the NYSE, and is also NYSE Group's strategy for adapting to the revised trade-through rule of Regulation NMS. Regulation NMS, adopted by the SEC in 2005, is a set of regulations that will govern certain aspects of trading on securities market centers. One of the principal features of Regulation NMS is the modernization of the trade-through or order protection rule. Among other things, this rule requires market centers to establish and

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maintain procedures to prevent trade-throughs, which are the executions of orders at a price inferior to the best bid or offer displayed by another market center at the time of execution. This aspect of Regulation NMS will protect and apply only to quotes available for immediate execution.

The NYSE Hybrid MarketSM is intended to emulate, in a primarily automatic-execution environment, the features of the traditional auction market that have provided stable, liquid and less volatile markets, as well as provide the opportunity for price improvement. The NYSE Hybrid MarketSM features the following:

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

Customers have the choice of auction representation and the opportunity for price improvement over the published best bid and offer.

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

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

In order to preserve the lower volatility that has characterized trading on the NYSE, pre-determined and published LRPs have been implemented to limit severe price moves. When activated, LRPs allow integration of the electronic market with the auction market for one transaction, thus enabling the specialist to elicit additional trading interest.

All better-priced top-of-book bids and offers entitled to protection under Regulation NMS in all other automated markets are immediately accessed, unless customers are provided the same price on the NYSE. All incoming orders from all competing market centers are automatically executed at the best price displayed on the NYSE. This creates an environment in which the best prices of each market center are protected from inferior-priced trade executions regardless of where an order is entered, and without human interaction.

As part of the NYSE Hybrid MarketSM initiative, the NYSE further automated routine specialist tasks and created a new interface to facilitate algorithmic liquidity injection by specialists. In addition, the NYSE has added new functionality to trading floor broker wireless hand-held computers to further automate smart order types and create new broker interest files with layering capabilities. The NYSE Hybrid MarketSM builds on the NYSE's core attributes of liquidity, pricing efficiency, low trading costs and tight spreads by broadening customers' ability to trade quickly and anonymously. The NYSE Hybrid MarketSM also furthers the NYSE's goal of providing all investors, regardless of their size, with the best price when buying or selling shares. Interaction of the NYSE's automatic and auction markets also maintains opportunities for price improvement.

By continuing to maintain market quality, including low intra-day volatility, the NYSE Hybrid MarketSM also allows issuers to reduce their cost of capital. Combining the NYSE's technology with the advantages of the

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auction market enables the NYSE market to function more effectively and efficiently. In the NYSE Hybrid MarketSM, specialists and brokers use judgment to improve prices and enhance order competition on the floor of the NYSE, while interacting with the market electronically as well as manually. NYSE Group believes that their judgment will be particularly valuable in less liquid stocks and during the opening and closing of trading, as well as during times of uncertainty, for example, when a corporate announcement or an outside event could lead to market instability and price volatility.

On February 27, 2007, the NYSE completed the rollout of Phase IV of Hybrid MarketSM, which introduces intermarket sweep orders, Immediate or Cancel orders (NMS version), and the locking and crossing rules as required by Regulation NMS.

On April 2, 2007, the NYSE completed its post-NYSE Hybrid Market rollout of a new routing service that will shortly replace routing through the Inter-Market Trading system (ITS). As of April 2, 2007, the NYSE is connected to the International Securities Exchange and the Alternative Display Facility for routing to better away prices in those markets as required by Regulation NMS. The NYSE plans to use this new routing software to reach all other Market Centers currently serviced through ITS. The ITS system is scheduled to be eliminated in June 2007. The NYSE plans to complete its conversion by early May 2007.

With the implementation of the NYSE Hybrid MarketSM, our software has accomplished the goal of offering customers greater choice while maintaining market quality. Almost 90% of all trades, representing more than 80% of volume, are automatically executed in sub-second speed. The Hybrid MarketSM, which transparently integrates automatic execution with floor broker and specialist interest, has resulted in narrower quoted spreads and improved fill rates. We expect continued improvement with the increased usage of electronic tools by floor brokers and specialists that process price improvement messages electronically. In addition, the NYSE's performance at the best bid and offer has also improved and the introduction of Liquidity Replenishment Points (LRPs) has ensured that volatility increased only slightly with the introduction of auto executions and sweeps without unduly slowing the market.

The NYSE currently operates approximately 36,000 square feet of contiguous trading floor space where specialists, floor brokers and clerks engage in the purchase and sale of securities. As of April 9, 2007, there were 257 specialists, 563 floor brokers and 1,441 clerks conducting business on the NYSE's trading floor. Specialists on the trading floor are charged with maintaining fair, orderly and continuous trading markets by bringing buyers and sellers together and, in the relative absence of orders to buy or sell their assigned stock, adding liquidity by buying and selling the assigned stock for their own accounts. Floor brokers act as agents on the trading floor to handle customer orders.

The NYSE derives revenues from these specialists, brokers and clerks by providing them with various products and services, including space, necessary for them to engage in the purchase and sale of securities on the trading floor.

Effective December 1, 2006, the NYSE implemented new transaction fees on NYSE-listed equities traded on the NYSE, which are based on a fixed rate of \$0.000275 per share. In addition, the NYSE eliminated specialist commissions on transactions in their assigned NYSE-listed securities, including ETFs, and implemented a transaction revenue sharing program with specialist firms. In addition, as of March 5, 2007, for orders pertaining to NYSE-listed equities that are routed to other market centers for execution, the NYSE charges a rate of \$0.0025 per share.

NYSE Arca Trading System

NYSE Arca operates two all-electronic equity securities trading systems, one for trading NYSE-, American Stock Exchange- and other exchange-listed securities, and another for trading Nasdaq-listed equity securities. These trading systems offer a variety of execution-related services, including NYSE Arca's best execution routing capability and routing services through the NYSE's SuperDOT[®] system. NYSE Arca's systems operate

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on three simple but fundamental principles: fast electronic execution, transparency, and open market access. On NYSE Arca, buyers and sellers meet directly in an electronic environment governed by trading rules designed to reflect these three fundamental principles.

The rules governing trading on NYSE Arca require execution of orders, without discretion, in accordance with the principles of openness, fairness and equal access. These trading rules are predicated on price-time priority within NYSE Arca, which requires execution of orders at the best available price and, if orders are posted at the same price, based on the time the order is entered on the trading system. NYSE Arca's electronic matching and routing systems actively search across multiple market centers and either match orders internally or route orders out to the best bid or offer displayed in the market using NYSE Arca's best execution routing capability. The technological capabilities of NYSE Arca's trading systems, together with its trading rules, have allowed NYSE Arca to provide access to a large pool of liquidity for its customers internally on NYSE Arca or externally through other markets.

On NYSE Arca, buyers and sellers can view the NYSE Arca open limit order book, which displays orders simultaneously to both the buyer and the seller. Buyers and sellers can submit these orders on an anonymous basis if they so choose. Once orders are submitted, all trades are executed in the manner designated by the party entering the order, which is often at prices equal to or better than the national best bid or offer. The national best bid or offer is the highest bid or lowest offer quote reported to the consolidated quotation systems pursuant to the consolidated quotation reporting plans. Buy and sell orders are posted on NYSE Arca in price order (best to worst) and then if prices are the same, they are ordered based on the time the buy order or sell order was posted (earliest to latest). NYSE Arca users may choose to have their unexecuted orders left on NYSE Arca's open order book, returned to them, or routed to other markets using NYSE Arca's best execution routing capability.

NYSE Group refers to permitted users of NYSE Arca's equity trading systems as equity trading permit (ETP) holders. Any qualified broker-dealer who wishes to trade on NYSE Arca's equity trading systems may obtain an ETP from NYSE Arca, Inc.

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

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

Effective October 1, 2006, NYSE Arca changed its rates for trading NYSE-listed securities as follows: (i) the rate for removing liquidity from NYSE Arca increased from \$0.001 per share to \$0.003 per share; and (ii) NYSE Arca rebates \$0.002 per share for the provision of liquidity. These fees are now consistent with those NYSE Arca charges for trading Nasdaq- and Amex-listed securities. Effective March 5, 2007, NYSE Arca charges a fee of \$0.30 per 100 shares for routing orders for NYSE-listed securities to market centers, other than the NYSE, while it continues to charge \$0.40 per 100 shares for routing orders for Amex and Nasdaq-listed securities.

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Market Data Business

NYSE Group collects and distributes market data, including real-time information relating to securities quotations, limit orders and the prices at which securities transactions take place. The broad distribution of accurate and reliable real-time market data is essential to the proper functioning of any securities market because it enables market professionals and investors to make trading decisions. NYSE Group believes that the quality of its market data, and the ability of traders to act on that data, attract order flow to the NYSE and NYSE Arca for execution and reinforce the NYSE brand. The pricing for market data products must be approved by the SEC on the basis of whether prices are fair, reasonable and not unreasonably discriminatory.

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

Consolidated Data Services

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

Last sale prices and quotes in NYSE-listed securities are disseminated through Tape A, which constitutes the majority of the NYSE's revenues from consortium-based market data revenues. NYSE Group also receives a share of the revenues from Tape B and Tape C, which represents data related to trading of securities (including ETFs) that are listed on AMEX, other regional exchanges and Nasdaq.

Proprietary Data Products

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

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

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

These products are proprietary to NYSE Group, and NYSE Group does not share the revenues that it generates from these products with other markets.

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

NYSE Arca also makes certain market data available independent of other markets, including the following products:

ArcaVision[®]. ArcaVision[®] offers analytic tools that go beyond the traditional trading data that is available to customers. NYSE Arca developed ArcaVision[®] in response to customer demand for

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increasingly detailed analyses of trading patterns, and it is designed to provide customers with critical market data on particular stocks. The ArcaVision® website is available to issuers listed on NYSE Arca, customers executing trades on NYSE Arca, and the general public. ArcaVision®'s sophisticated system enables NYSE Arca to customize the views available to each user to meet their specific needs.

ArcaBook®. ArcaBook® displays the limit order book of securities traded on the NYSE Arca trading platform in real time.

Trade Reporting Facility

In April 2007, NYSE Group launched a trade reporting facility serving NYSE Group customers reporting off-exchange trades in all listed national market system stocks. NYSE Group's trade reporting facility conforms to the SEC's recent approval of the National Association of Securities Dealers, Inc.'s (NASD) new trade reporting arrangement. It is anticipated that NYSE Group's trade reporting facility will enhance the range of trading products and services provided by NYSE Group to its customers by offering a reliable and competitively priced venue to report internally executed transactions.

NYSE Membership Organizations

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

NYSE Trading Licenses

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

Duration and Pricing. The price of a trading license for calendar year 2007 was established by NYSE Group at \$50,000. During the fourth quarter of 2006, NYSE Group sold 1,065 trading licenses for calendar year 2007. The NYSE has made a total of 1,366 trading licenses available for purchase during 2007, the remainder of which can be purchased at a price that will be subject to a 10% premium and will be pro-rated based on when during the calendar year such licenses are purchased. All trading licenses for calendar year 2007 are only valid for calendar year 2007, regardless of when during the year they are purchased. Holders of trading licenses have the right to cancel their trading license prior to the end of the year.

Approval of NYSE Regulation. Any bidder for a trading license is subject to the approval of NYSE Regulation. NYSE Group has not determined whether it will issue separate licenses for access for particular products.

Securities Industry Automation Corporation (SIAC)

SIAC, a wholly owned subsidiary of NYSE Group, provides data processing and software development services and is a registered securities information processor under the Exchange Act. Formed in 1972 as a New York business corporation, SIAC:

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

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provides systems support for essential regulatory and administrative activities; and

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

Historically, SIAC has been operated as a cost-recovery utility. As a result, it provides its services to its customers on an at-cost, non-profit basis.

SIAC's wholly owned for-profit subsidiary, Sector, Inc., offers an array of communications and data processing services, primarily to the broker-dealer community. These services include email archiving, other books and record storage solutions, facilities management, data center hosting, disaster recovery, enterprise service