

ARCHIPELAGO HOLDINGS INC
Form 10-Q
November 09, 2004

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(MARK ONE)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE
ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2004

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE
ACT OF 1934

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER: 001-32274

ARCHIPELAGO HOLDINGS, INC.

(Exact name of Registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or
organization)

36-4298373
(I.R.S. Employer
Identification Number)

100 South Wacker Drive, Suite 1800

Chicago, IL 60606

(312) 960-1696

(Address, including zip code, and
telephone number including area code, of
Registrant's principal executive offices)

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 whether the registrant is an accelerated filer (as defined in Rule 12B-2 of the Exchange Act). Yes No

As of November 2, 2004, the Registrant had approximately 47,135,000 shares of common stock, \$0.01 par value per share, outstanding.

ARCHIPELAGO HOLDINGS, INC.

QUARTERLY REPORT ON FORM 10-Q

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FORWARD-LOOKING STATEMENTS

In addition to historical information, this Quarterly Report on Form 10-Q contains forward-looking statements. These statements relate to future events or our future financial performance, and involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements, expressed or implied, by these forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as may, will, should, expects, intends, plans, anticipates, believes, estimates, predicts, potential, continuation, or other comparable terminology. These statements are only predictions. Actual events or results may differ materially and we undertake no ongoing obligation, other than that imposed by law, to update these statements.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. These forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to, general economic conditions, our future operating results, market penetration and financial condition, industry trading activity and fluctuations, regulatory changes and competition, as well as the risks and uncertainties described in the Risk Factors section of our final Prospectus filed with the Securities and Exchange Commission on August 12, 2004 and the factors discussed below under Management's Discussion and Analysis. You are urged to carefully consider these factors. All forward-looking statements attributable to us are expressly qualified in their entirety by the foregoing cautionary statements.

PART I Financial Information**Item 1. Financial Statements**

Archipelago Holdings, Inc.

Condensed Consolidated Statements of Financial Condition

(In thousands, except per share data)

	December 31, 2003	September 30, 2004 (unaudited)
Assets		
Current assets:		
Cash and cash equivalents	\$ 111,815	\$ 172,856
Receivables from brokers, dealers and customers, net	38,666	27,294
Receivables from related parties	38,548	42,843
Total current assets	189,029	242,993
Fixed assets, net	49,753	49,176
Goodwill	129,666	131,865
Intangible asset - Pacific Exchange facility agreement	90,000	90,000
Other intangible assets, net	3,796	2,576
Deferred tax asset, net		3,280
Other assets	3,648	9,856
Total assets	\$ 465,892	\$ 529,746
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable and accrued expenses	\$ 22,917	\$ 39,433
Payables to brokers, dealers and exchanges	17,542	15,039
Payables to related parties	63,913	24,955
Current portion of note payable and capital lease obligations	4,089	2,043
Total current liabilities	108,461	81,470
Note payable	2,593	
Capital lease obligations	1,545	
Total liabilities	112,599	81,470
Redeemable convertible preferred shares	50,000	
Commitments and contingencies		
Stockholders equity		
Members equity	303,293	
Common stock, \$.01 par value, 165,000 shares authorized; zero and 47,135 shares issued and outstanding		471
Additional paid-in capital		451,591
Unearned stock-based compensation		(57)
Accumulated deficit		(3,729)

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Total stockholders' equity		303,293		448,276
Total liabilities and stockholders' equity	\$	465,892	\$	529,746

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

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Archipelago Holdings, Inc.

Condensed Consolidated Statements of Operations

(In thousands, except per share data)

(unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2003	2004	2003	2004
Revenues				
Transaction fees (\$45,767, \$45,546, \$126,194 and \$147,823 with related parties)	\$ 116,015	\$ 112,738	\$ 307,253	\$ 363,816
Market data fees (\$3,611, \$6,595, \$7,005 and \$15,992 with related parties)	10,852	14,285	19,318	38,457
Listing fees	24	118	407	324
Total revenues	126,891	127,141	326,978	402,597
Cost of revenues				
Liquidity payments (\$11,689, \$12,880, \$34,101 and \$42,209 with related parties)	42,765	47,504	104,204	148,959
Routing charges (\$14,077, \$10,934, \$43,606 and \$36,649 with related parties)	28,716	20,289	90,486	68,801
Clearance, brokerage and other transaction expenses (\$8,131, \$3,434, \$33,439 and \$14,033 with related parties)	16,008	8,888	52,948	32,313
Total cost of revenues	87,489	76,681	247,638	250,073
Gross margin	39,402	50,460	79,340	152,524
Indirect expenses				
Employee compensation and benefits	9,972	10,589	29,205	31,753
Depreciation and amortization	9,966	4,976	19,509	21,228
Communications (\$832, \$1,322, \$2,510 and \$3,400 with related parties)	4,911	5,058	16,470	14,218
Marketing and promotion (\$151, \$116, \$478 and \$357 with related parties)	2,391	7,825	5,521	12,307
Legal and professional (\$250, \$525, \$750 and \$1,163 with related parties)	1,449	2,736	6,882	8,612
Occupancy	1,023	1,211	3,130	3,197
General and administrative	3,466	3,215	9,645	7,771
Total indirect expenses	33,178	35,610	90,362	99,086
Operating income (loss)	6,224	14,850	(11,022)	53,438
Interest and other, net	269	950	388	1,662
Income (loss) before income tax benefit	6,493	15,800	(10,634)	55,100
Income tax benefit		(1,315)		(1,315)
Net income (loss)	6,493	17,115	(10,634)	56,415
Deemed dividend on convertible preferred shares		(9,619)		(9,619)
Net income (loss) attributable to common stockholders	\$ 6,493	\$ 7,496	\$ (10,634)	\$ 46,796
Basic earnings (loss) per share (a)	\$ 0.18	\$ 0.18	\$ (0.29)	\$ 1.23
Diluted earnings (loss) per share (a)	\$ 0.18	\$ 0.17	\$ (0.29)	\$ 1.13
Basic weighted average shares outstanding (a)	36,169	41,640	36,169	38,006
Diluted weighted average shares outstanding (a)	36,188	43,994	36,169	41,360

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

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

Archipelago Holdings, Inc.

Condensed Consolidated Statement of Changes in Stockholders' Equity

Nine months ended September 30, 2004

(In thousands)

(unaudited)

	Members Equity	Common Stock Shares	Common Stock Par Value	Additional Paid-In Capital	Unearned Stock-Based Compensation	Accumulated Deficit	Total Stockholders Equity
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 from the period from August 12 to September 30, 2004					19		19
Net income for the period from August 12 to September 30, 2004						5,890	5,890
Balance, September 30, 2004	\$ 47,135	\$ 471	\$ 451,591	\$ (57)	\$ (3,729)	\$ 448,276	

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

Archipelago Holdings, Inc.

Condensed Consolidated Statements of Cash Flows

(In thousands)

(unaudited)

	Nine Months Ended September 30,	
	2003	2004
Cash flows from operating activities		
Net income (loss)	\$ (10,634)	\$ 56,415
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	18,831	20,007
Amortization of other intangible assets	678	1,221
Provision for doubtful accounts	6,583	(500)
Deferred taxes		(3,280)
Stock-based compensation	182	114
Gain on sale of investment owned	(40)	
Changes in operating assets and liabilities:		
Accounts receivable	(47,813)	7,577
Other assets	438	(6,209)
Accounts payable and accrued expenses	14,316	(24,944)
Net cash provided by (used in) operating activities	(17,459)	50,401
Cash flows from investing activities		
Additions to fixed assets	(15,906)	(19,431)
Proceeds from sale of investment	2,010	
Net cash used in investing activities	(13,896)	(19,431)
Cash flows from financing activities		
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 issuance of note payable	5,681	
Repayments of note payable	(823)	(4,429)
Principal payments under capital lease obligations		(1,756)
Net cash provided by financing activities	4,858	30,071
Net increase (decrease) in cash and cash equivalents	(26,497)	61,041
Cash and cash equivalents at beginning of period	48,964	111,815
Cash and cash equivalents at end of period	\$ 22,467	\$ 172,856
Supplemental disclosures of cash flow information		
Cash paid for:		
Interest	144	266
Income taxes		1,859
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

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

Archipelago Holdings, Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

1. Organization and Basis of Presentation

Organization

Archipelago Holdings, Inc. operates the Archipelago Exchange, or ArcaEx® (ArcaEx), the first open all-electronic stock market in the United States for trading in all NYSE, Nasdaq, AMEX and Pacific Exchange-listed stocks. Archipelago Holdings, L.L.C. (Holdings LLC), a Delaware limited liability company and the predecessor to the Company, was organized in January 1999. In July 2000, Holdings LLC entered into a facility services agreement with the Pacific Exchange, Inc. (PCX) 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 (OTC) 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 the Company . On August 19, 2004, the Company completed an initial public offering (IPO) of its common stock. See below discussion of the Conversion Transaction and the Initial Public Offering . Through certain subsidiaries, the Company 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 exchange trading permit ("ETP").

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, the Company is responsible for the payment of all federal and state corporate income taxes. See Note 7.

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 the Company for each 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 the Company's board of managers on July 16, 2004, the Company made a \$24.6 million cash distribution to the members of Holdings LLC immediately prior to the conversion transaction. The cash distribution permits the members to pay the taxes that the members will owe for their share of the Company'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

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On August 19, 2004, the Company completed the IPO of its common stock as a result of which the Company sold 6,325,000 shares of common stock at \$11.50 per share. The Company 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 the Company, for which the Company received no proceeds. The Company's stock is listed on the Pacific Stock Exchange under the symbol "AX". A summary of the terms of the IPO can be found in the Company's Registration

Statement on Form S-1 (File No. 333-113226) (the Registration Statement), which was declared effective by the SEC on August 12, 2004.

Basis of Presentation

The accompanying condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, which principally include: Wave Securities, L.L.C. (formerly, Archipelago, L.L.C.), Archipelago Exchange, L.L.C. (ArcaExchange), Archipelago Securities, L.L.C. (ARCAS), ARCA-GNC Acquisition, L.L.C. (GNC), Archipelago Trading Services, Inc. (ATSI), Archipelago Europe Limited (AEL), Wave Securities Canada Inc., Archipelago Direct, L.L.C. (formerly, Archipelago TP Investment, L.L.C.), Archipelago Brokerage Services, L.L.C. (formerly, Archipelago Services, L.L.C.), Archipelago Market Data Services, L.L.C. and Archipelago Overseas, L.L.C.

The accompanying condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. All material intercompany accounts and transactions have been eliminated in consolidation. Certain information and footnote disclosures normally included in financial statements have been condensed or omitted; however, management believes that the disclosures are adequate to make the information presented not misleading.

The preparation of condensed consolidated 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 financial statements are reasonable and prudent. Actual results could differ from these estimates.

The condensed consolidated financial statements are unaudited and should be read in conjunction with the Company s audited financial statements as of and for the year ended December 31, 2003, included in the Company s Registration Statement. Operating results for the three and nine months ended September 30, 2004 are not necessarily indicative of the results that may be expected for the year ending December 31, 2004.

2. Fixed Assets

Fixed assets consisted of the following:

	December 31, 2003	September 30, 2004
	(In thousands)	
Software, including software development costs	\$ 35,047	\$ 42,377
Computers and equipment	32,791	40,519
Leasehold improvements	17,409	18,536
Equipment under capital leases	18,070	18,070

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Routers	4,920	5,330
Furniture and fixtures	1,895	2,883
	110,132	127,715
Accumulated depreciation and amortization	(60,379)	(78,539)
	\$ 49,753	\$ 49,176

In June 2003, the Company determined that certain software and computer equipment would be retired by March 2004 and, therefore, the Company accelerated depreciation on these assets. During the first quarter of 2004, the Company recorded \$6.2 million in depreciation on these assets as opposed to \$2.3 million had the depreciation period not been accelerated. As of March 31, 2004, the net book value of these assets was reduced to zero.

In May 2004, the Company vacated one of the floors in its headquarters. As a result, the Company wrote off fixed assets with a net book value of approximately \$0.6 million in the aggregate, which consisted primarily of leasehold improvements.

In accordance with the provisions of Statement of Position 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*, the Company capitalizes qualifying computer software costs incurred during the application development stage. During the nine months ended September 30, 2003 and 2004, software development costs totaling \$5.5 million and \$2.0 million were capitalized, respectively.

3. Goodwill and Other Intangible Assets

Goodwill

In March 2002, the Company 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 received, with the remaining value of \$129.7 million ascribed to goodwill. In August 2004, the Company issued contingent consideration to former REDIBook members in the form of 192,194 shares of the Company's common stock valued at \$11.50 per share and recorded \$2.2 million of additional goodwill.

PCX Exchange Facility Agreement

In May 2001, the Company acquired the right to operate as the exclusive equity trading facility of the PCX Equities, Inc. for an aggregate consideration of \$90.0 million. The Company determined that this intangible asset had an indefinite life and, as such, it is not subject to amortization.

Other Intangible Assets

In October 2002, the Company acquired Globenet Securities, Inc. and the net assets of its parent, Globenet Capital Corporation in a transaction accounted for as an asset acquisition. The Company assigned \$4.9 million to an intangible asset related to the technology acquired. This intangible asset is amortized over three years from the implementation of the technology in May 2003. As of September 30, 2004, the net book value of this intangible asset was \$2.6 million.

4. Related Party Transactions

The following is a summary of the related party transactions involving the Company and certain former members (*i.e.*, owners of Holdings LLC prior to the IPO) and current stockholders (*i.e.*, stockholders of the Company after the IPO), PCX and other affiliates as part of its operations:

	Three months ended September 30,		Nine months ended September 30,	
	2003	2004	2003	2004
(In thousands)				
Revenues				
Transaction fees earned from stockholders/former members and affiliates(1)	\$ 45,767	\$ 45,546	\$ 126,194	\$ 147,823
Market data fees received from PCX (net of amounts shared with customers of \$3,456, \$5,879, \$7,184 and \$14,192)(2)	3,611	6,595	7,005	15,992
Cost of revenues				
Liquidity payments to stockholders/former members and affiliates(1)	11,689	12,880	34,101	42,209
Routing charges:				
Routing fees paid to stockholder/former member(4)	13,474	10,404	40,878	34,350
Routing fees for listed securities paid to stockholders/former members(5)	603	530	2,728	2,299
Clearance, brokerage and other transaction expenses:				
PCX's cost of obtaining market data(3)	41		77	
Clearing services provided by a stockholder/former member(6)	7,220	2,137	26,106	9,374
Clearing services provided by an affiliated clearing broker(6)	782	646	2,183	2,698
Management fees paid to a stockholder/former member for support of REDIBook ECN(7)			4,502	
Regulatory services fees paid to PCX(8)	1,335	1,832	4,112	5,337
Registered representative fees received from PCX(8)	(1,247)	(1,181)	(3,541)	(3,376)
Indirect expenses				
Communications:				
Back office services provided by an affiliate(10)	300	300	900	900
Software related services provided by an affiliate (net of amounts charged to customers of \$774, \$559, \$2,499 and \$1,829)(11)	532	1,022	1,610	2,500
Marketing and promotion:				
Business development costs(12)	151	116	478	357
Legal and professional:				
Professional fees for services provided by an affiliate(9)	250	525	750	1,163

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

(2) The Company 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 that, the Company 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. PCX 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. Under the terms of the facility services agreement, the Company is entitled to all tape revenues earned in connection with trading activities on ArcaEx.

(3) In connection with its operation of an options trading floor, PCX is a consumer of consolidated market data collected and sold under the plans discussed in the previous footnote. Between April 2002 and December 2003, the Company agreed to cover PCX's cost of obtaining consolidated market data by reducing the amount of market data fees to which the Company was entitled under the facility services agreement by the amount of PCX's cost for obtaining consolidated market data for use in connection with its options trading floor.

(4) A stockholder/former member of Holdings LLC receives routing fees for trades executed through ArcaEx, and previously through the Company's ECN, that ultimately route through to the stockholder/former member's ECN.

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

(6) The Company clears its transactions for institutional customers through an affiliated clearing broker and transactions for non-institutional customers through a stockholder/former member of Holdings LLC/clearing broker.

(7) In 2002, the Company entered into 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 the Company paid a monthly fee.

(8) Under the terms of the facility services agreement, PCX provides certain regulatory services to the Company in return for regular payments as negotiated between the parties. Also, PCX forwards registered representative fees received from the NASD to the Company.

(9) An affiliate provides software related services to the Company.

(10) An affiliate provides back-office services to Wave. The services include offering and managing connectivity to alternative execution venues, clearing technology, as well as reporting to the NASD's Order Audit Trail Systems through which NASD members are required to report information regarding Nasdaq transactions.

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

(12) The Company paid rental fees for the yacht that it leases for certain business development functions, which is operated by the domestic partner of a sister of a member of management.

An affiliate provided software development services to the Company in the amount of \$1.0 million and zero for the three months ended September 30, 2003 and 2004, and \$3.0 million and \$1.5 million for the nine months ended September 30, 2003 and 2004, respectively.

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Effective June 1, 2004, the Company entered into a consulting agreement with a consulting firm and its principal, in their separate capacities. The principal serves as a director of the Company. This consulting agreement provides for a minimum fee of \$150,000 per quarter and a minimum term of one year. For the three and nine months ended September 30, 2004, the Company paid \$150,000 and \$200,000, respectively, under this agreement.

In October 2003, ArcaExchange entered into a \$20.0 million credit facility with a stockholder/former member of Holdings LLC, pursuant to which trade receivables were pledged as collateral. No amounts have been drawn under the credit facility and the full \$20.0 million was available for borrowing at September 30, 2004.

As of September 30, 2004, cash and cash equivalents held at affiliated financial institutions amounted to \$4.3 million.

In connection with the IPO, the Company paid commission, consisting primarily of underwriting discounts, to certain stockholders/former members of Holdings LLC totaling approximately \$4.4 million.

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

5. Stock-Based Compensation

The Company accounts for stock option grants to employees in accordance with Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and, accordingly, recognizes compensation expense using the Intrinsic Value Method. Under the Intrinsic Value Method, compensation cost for stock options, if any, is measured as the excess of the estimated fair value of the Company's stock over the option exercise price.

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

	Three months ended September 30,		Nine months ended September 30,	
	2003	2004	2003	2004
Net income (loss) attributable to common stockholders, as reported	\$ 6,493	\$ 7,496	\$ (10,634)	\$ 46,796
Add: Stock-based employee compensation cost included in net income	182	38	182	114
Deduct: Stock-based employee compensation cost determined under the fair value based method for all awards, net of related tax effects of \$445, \$240, \$691 and \$509	668	339	1,036	717
Net income (loss) attributable to common stockholders, pro forma	\$ 6,007	\$ 7,195	\$ (11,488)	\$ 46,193
Earnings per share:				
Basic, as reported	\$ 0.18	\$ 0.18	\$ (0.29)	\$ 1.23
Basic, pro forma	\$ 0.17	\$ 0.17	\$ (0.32)	\$ 1.22
Diluted, as reported	\$ 0.18	\$ 0.17	\$ (0.29)	\$ 1.13
Diluted, pro forma	\$ 0.17	\$ 0.16	\$ (0.32)	\$ 1.12

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:

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	Three months ended September 30,		Nine months ended September 30,	
	2003	2004	2003	2004
Dividend yield				
Expected volatility	30.0%	30.0%	30.0%	30.0%
Risk-free interest rate	3.8%	4.0%	3.8%	4.0%
Expected life (in years)	7	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 the Company'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 do not provide a reliable measure of the fair value of the Company's employee stock options.

The above pro forma information gives effect to the Company'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% and 41.5% for the three and nine-month periods ended September 30, 2003 and 2004, respectively.

6. Computation of Earnings Per Share

The following is a reconciliation of the basic and diluted earnings per share computations:

	Three months ended September 30,		Nine months ended September 30,	
	2003	2004	2003	2004
	(In thousands, except per share data)			
Net income attributable to common stockholders for basic and diluted earnings per share	\$ 6,493	\$ 7,496	\$ (10,634)	\$ 46,796
Shares of common stock and common stock equivalents:				
Weighted average shares used in basic computation	36,169	41,640	36,169	38,006
Dilutive effect of:				
Preferred shares converted to common in August 2004		1,704		3,051
Additional shares of common stock issued at IPO		475		160
Stock options and other	19	175		143
Weighted average shares used in diluted computation	36,188	43,994	36,169	41,360
Basic earnings (loss) per share	\$ 0.18	\$ 0.18	\$ (0.29)	\$ 1.23
Diluted earnings (loss) per share	\$ 0.18	\$ 0.17	\$ (0.29)	\$ 1.13

At September 30, 2004 and 2003, approximately 1.4 million and 0.6 million securities, respectively, were excluded from the computation of diluted earnings per share because their effect would have been antidilutive.

7. Income Taxes

The income tax benefit for the three and nine months ended September 30, 2004 consisted of the following (in thousands):

Current:	
Federal	\$ 1,657
State	308

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Total current		1,965
Deferred		(3,280)
Income tax benefit	\$	(1,315)

Significant components of the Company's deferred tax assets and liabilities at September 30, 2004 were as follows (in thousands):

Deferred tax assets:		
Bonuses	\$	3,826
Allowance for doubtful accounts		1,587
Net operating loss carryforwards (NOL) of ATSI subsidiary		1,560
Valuation allowance		(1,560)
Other		177
Total deferred tax assets		5,590
Deferred tax liabilities:		
Depreciation & amortization		2,248
Other		62
Total deferred tax liabilities		2,310
Deferred tax asset, net	\$	3,280

As of September 30, 2004, ATSI had approximately \$3.9 million of net operating losses for Federal and State tax purposes, which will begin to expire in 2012. A full valuation allowance was recorded against the \$1.6 million tax effect of these losses 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 \$5.6 million deferred tax assets based on management's belief that it is more likely than not that such assets will be realized. The Company does not have any deferred tax assets related to Holdings LLC's net operating losses, as those losses were incurred when the Company was treated as a partnership for federal income tax purposes.

For the quarter ended September 30, 2004, the effective tax rate varied from the U.S. Federal statutory income tax rate due to the following:

Federal statutory rate	35.0%
State, net of federal tax benefit	6.5%
Benefit from deferred taxes (1)	(22.1)%
Former Members' income (2)	(29.5)%
Other	1.8%
Effective tax rate	(8.3)%

(1) The Company recognized a \$3.5 million net deferred tax asset for temporary differences when Holdings LLC converted into a Delaware corporation. The corresponding deferred tax benefit lowered the Company's effective tax rate.

(2) For the income earned from the date of the conversion to a Delaware corporation through September 30, 2004, the Company provided for income taxes based on a 41.5% blended tax rate. Prior to August 12, 2004, all income taxes were paid by Holdings LLC's former members.

8. Segment Reporting

The Company operates in two reportable segments: Transaction Execution Services and Agency Brokerage Services.

Transaction Execution Services consist primarily of transaction execution services, market data services on a real-time or summary basis and, through the Company's alliance with PCX, a trading venue for issuers of equity securities, exchange traded funds and structured products. Under PCX rules, issuers are listed on PCX 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 are provided through Wave and consist of order execution services, on an agency basis, for orders received exclusively from institutions involving primarily Nasdaq and listed securities. This segment provides 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.

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 11.6% and 10.0%, of the consolidated revenues for the three months ended September 30, 2003 and 2004, and 14.3% and 10.0%, of the consolidated revenues for the nine months ended September 30, 2003 and 2004, respectively.

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

	Transaction Execution Services	Agency Brokerage Services	Eliminations	Consolidated
Three months ended September 30,				
2003				
Revenues	\$ 115,469	\$ 12,967	\$ (1,545)	\$ 126,891
Cost of revenues	82,497	6,537	(1,545)	87,489
Gross margin	32,972	6,430		39,402
Indirect expenses	27,889	5,289		33,178
Operating income	5,083	1,141		6,224
2004				
Revenues	\$ 116,452	\$ 12,112	\$ (1,423)	\$ 127,141
Cost of revenues	71,354	6,750	(1,423)	76,681
Gross margin	45,098	5,362		50,460
Indirect expenses	31,597	4,013		35,610
Operating income	13,501	1,349		14,850
Nine months ended September 30,				
2003				
Revenues	\$ 294,893	\$ 35,572	\$ (3,487)	\$ 326,978
Cost of revenues	234,952	16,173	(3,487)	247,638
Gross margin	59,941	19,399		79,340

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Indirect expenses	74,946	15,416	90,362
Operating income (loss)	(15,005)	3,983	(11,022)

2004

Revenues	\$ 367,072	\$ 40,288	\$ (4,763)	\$ 402,597
Cost of revenues	230,679	24,157	(4,763)	250,073
Gross margin	136,393	16,131		152,524
Indirect expenses	87,012	12,074		99,086
Operating income	49,381	4,057		53,438

Identifiable assets (September 30, 2004)	\$ 493,591	\$ 39,371	\$ (3,216)	\$ 529,746
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In 2004, the Company revised its methodology for allocating certain expenses between the segments to reflect the fact that Agency Brokerage Services had built out its own infrastructure and therefore relies less on Company shared services. Indirect costs allocated to Agency Brokerage Services were \$3.0 million and \$1.5 million for the three months ended September 30, 2003 and 2004, and \$9.0 million and \$4.5 million for the nine months ended September 30, 2003 and 2004, respectively.

9. Net Capital Requirements

Wave, ARCAS and ATSI are registered broker-dealers and are subject to net capital requirements under SEC Rule 15c3-1. Wave and ATSI 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 September 30, 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):

Net capital		
Wave	\$	15,176
ARCAS		6,262
ATSI		3,719
Net capital in excess of required net capital		
Wave	\$	14,096
ARCAS		6,012
ATSI		3,540
Ratio of aggregate indebtedness to net capital		
Wave		1.07 to 1
ARCAS		N/A
ATSI		.72 to 1

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.

The Company's international broker-dealer subsidiaries are subject to capital adequacy requirements promulgated by authorities of the countries to which they operate. As of September 30, 2004, these subsidiaries had met their local capital adequacy requirements.

10. Subsequent Event

Abovenet Litigation

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In connection with a lawsuit filed in November 2003 in a state court in the State of New York regarding certain telecommunication services, in November of 2004, the Company entered into a definitive settlement agreement in principal under which the Company paid to Abovenet approximately \$1.7 million in exchange for Abovenet's release of all claims against the Company.

In accordance with SFAS 5, Accounting for Contingencies, and FIN 14, Reasonable Estimation of the Amount of a Loss, the Company had recorded in fiscal 2003 a contingent liability for the amount of the settlement paid.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussions together with the condensed consolidated financial statements and related notes as well as the forward looking statements included in this document.

Executive Overview

We operate ArcaEx, the first open, all-electronic stock market in the United States for trading in NYSE-, Nasdaq-, AMEX- and PCX-listed equity securities, exchange-traded funds and other exchange-listed securities. During the nine months ended September 30, 2003 and 2004, our customers executed 207.5 million and 304.4 million transactions in U.S. equity securities through ArcaEx, respectively, representing 82.8 billion and 104.1 billion shares. Our trading platforms and services have been designed to enhance the speed and quality of trade execution for our customers. Our trading platforms provide our customers with fast electronic execution and open, direct and anonymous market access. The technological capabilities of our trading systems, together with our trading rules, have allowed us to create a large pool of liquidity that is available to our customers internally on ArcaEx and externally through other market centers. We also operate The ArcaEdge®, a broker-dealer sponsored trading platform designed to bring the benefits of ArcaEx' fast electronic execution, transparency and open market access' to the trading of small-cap equity securities.

We earn revenues and generate cash from transaction fees collected in connection with trade execution (whether matched internally or routed out) on ArcaEx. We also generate revenues from fees collected for introducing broker-dealers that are not ETP holders to ArcaEx. In addition, we receive 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. Through our alliance with PCX, we also collect listing fees from companies and index providers that list on PCX as a trading venue for their equity securities, exchange-traded funds and other structured products. Through our wholly-owned subsidiary, Wave Securities, L.L.C., we offer and derive revenues from fees collected in connection with agency brokerage services for institutional customers seeking to access ArcaEx and other U.S. market centers electronically. Our total revenues grew from \$155.2 million in 2001 to \$458.3 million in 2003. Our revenues were \$402.6 million in the first nine months of 2004.

Our business is dependent on the liquidity (i.e., the number and range of buy orders and sell orders posted on our system and available to our customers) of the Archipelago system (ArcaEx and its precursor, Archipelago Electronic Communications Network – ECN, which we operated until April 2003). As a result, our most significant cost of generating revenues is the cost of liquidity, which we pay for in one of two ways. First, to enhance the liquidity of our system, we pay a small fee per share (denominated in tenths of a cent per share) to participants, referred to as "liquidity providers," that post buy orders and sell orders on the Archipelago system, when the quote is executed against, or "hit," by liquidity takers purchasing or selling securities internally on our system. Second, as part of our best execution business model, we incur routing charges when the Archipelago system does not have the best buy or sell order in the market for a security that a customer is trying to buy or sell on our system. In that case, we will route the customer's order to the external market center that displays the best buy order or sell order. The external market center will charge us a fee per share (denominated in tenths of a cent per share) for routing to its system.

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Making liquidity payments and incurring routing charges are part of the costs we incur to generate revenues through increased liquidity on the Archipelago system. We seek to offset these costs by increased trade execution on the Archipelago system. Our cost of liquidity generally fluctuates based on (i) trading volumes and (ii) the per share fee we pay liquidity providers for trades executed internally on ArcaEx or the per share routing charge we pay to external market centers for outbound trades.

We also incur clearance, brokerage and related transaction expenses, which primarily include transaction expenses paid to clearing entities for clearing and settlement, service fees paid per trade to exchanges for trade execution. As the operator of a facility of PCX Equities, we do not incur clearing charges for trades executed on ArcaEx by two independent market participants. As a result, our cost per trade is lower for trades executed internally on ArcaEx. If we route a trade to an external market center, we bear clearing and settlement costs.

In addition to our direct cost of revenues, we incur the following indirect expenses:

employee compensation and benefits expenses, which include salaries, incentive compensation and related employee benefits and taxes;

depreciation and amortization expenses, which result primarily from the depreciation of the fixed assets we purchase, including computer software and hardware used in the development of our trading systems;

communications expenses, which consist primarily of costs for our network connection with our customers and our data centers, as well as connectivity to various other market centers;

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

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

occupancy expenses, which consist primarily of rental expenses; and

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

On August 11, 2004 we converted from a limited liability company to a C corporation in connection with the consummation of our Initial Public Offering (IPO). Please refer to Note 1 Organization and Basis of Presentation under the sub-headings Conversion Transaction and Initial Public Offering for further discussion in our unaudited financial statements.

For financial reporting purposes, our business is divided into two reportable segments: transaction execution services and agency brokerage services. Our transaction execution business includes trade execution on the Archipelago system as well as fees we receive for market data and from issuers with equity securities listed on the Pacific Exchange for trading on ArcaEx. Our trade execution customers are required to hold an ETP or be a broker-dealer introduced to ArcaEx by an ETP holder in order to trade on ArcaEx. An ETP holder must be a broker-dealer. Our agency brokerage services are provided through Wave Securities, L.L.C., our broker-dealer subsidiary, and consist of order execution services, on an agency basis, for orders received exclusively from institutions involving primarily Nasdaq and listed securities. This segment provides 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.

Key Statistical Information

Our revenues and gross margin are directly impacted by trading volumes of U.S. equity securities on the Archipelago system. Our profitability depends to a significant extent on our ability to attract and retain trading volumes, both in absolute terms and relative to other market centers. We derive revenues on both a per-share basis and a per-transaction basis, depending upon the source of revenue. The transaction fees we receive for trade execution and the payments we make to liquidity providers are determined on a per-share basis. Market

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data fees for exchange-listed securities are determined on a per-transaction basis, and market data fees for Nasdaq-listed securities are determined on a combination of share volume and transaction volume.

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

	Three months ended September 30,		Nine months ended September 30,	
	2003	2004	2003	2004
Trading Days	64	64	188	188
Total U.S. market volume (millions of shares)(1)	235,804	220,785	688,489	730,203
Our total U.S. market volume (millions of shares)(1)	31,813	32,793	82,845	104,138
Our share of total U.S. market volume(1)(2)	13.49%	14.85%	12.03%	14.26%
% of handled shares matched internally(3)	9.45%	11.50%	7.83%	10.86%
% of handled shares routed out(3)	4.04%	3.35%	4.20%	3.40%
Total volume of Nasdaq-listed securities (millions of shares)	110,672	99,636	311,971	334,278
Our total volume of Nasdaq-listed securities (millions of shares)	28,370	26,460	74,058	86,326
Our share of total volume of Nasdaq-listed securities(2)	25.63%	26.56%	23.74%	25.82%
% of handled shares matched internally(3)	17.93%	20.31%	15.50%	19.55%
% of handled shares routed out(3)	7.70%	6.25%	8.24%	6.27%
Total volume of NYSE-listed securities (millions of shares)	108,819	104,025	331,707	339,646
Our volume in NYSE-listed securities (millions of shares)	1,179	1,843	3,660	5,547
Our share of total volume of NYSE-listed securities(2)	1.08%	1.77%	1.10%	1.63%
% of handled shares matched internally(3)	0.55%	1.22%	0.49%	1.04%
% of handled shares routed out(3)	0.53%	0.55%	0.61%	0.59%
Total volume of AMEX-listed securities (millions of shares)	16,313	17,124	44,811	56,279
Our volume in AMEX-listed securities (millions of shares)	2,264	4,490	5,128	12,265
Our share of total volume of AMEX-listed securities(2)	13.88%	26.22%	11.44%	21.79%
% of handled shares matched internally(3)	11.30%	22.74%	8.74%	18.53%
% of handled shares routed out(3)	2.58%	3.48%	2.70%	3.26%
Our ETF volume (millions of shares)	1,969	4,190	4,380	11,019
Our U.S. equity transaction volume (thousands of transactions)	82,282	103,543	207,516	304,374

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Our average U.S. equity transaction size (shares per transaction)	387	317	399	342
Our average U.S. equity transactions per day (thousands of transactions)	1,286	1,618	1,104	1,619
Our average transaction-related revenue (per share)(4)	\$ 0.0036	\$ 0.0034	\$ 0.0037	\$ 0.0035
Our average transaction-related cost of revenue (per share)(5)	\$ 0.0022	\$ 0.0021	\$ 0.0024	\$ 0.0021
Our average transaction-related gross margin (per share)(6)	\$ 0.0014	\$ 0.0013	\$ 0.0013	\$ 0.0014
% of customer order volume matched internally(7)	82.2%	87.1%	78.4%	86.3%
% of customer order volume routed out(7)	17.8%	12.9%	21.6%	13.7%

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

(2) Our market share is calculated based on the number of shares handled on the Archipelago system as a percentage of total volume.

(3) Represents our share of the total volume of such securities handled on ArcaEx that was either matched internally on ArcaEx or routed out to an external market center.

(4) The per share amount is calculated based on our total revenues derived from transaction fees of \$116.0 million and \$112.7 million for the three months ended September 30, 2003 and 2004, respectively, and \$307.3 million and \$363.8 million for the nine months ended September 30, 2003 and 2004, respectively, and our total U.S. market volume for the relevant period.

(5) The per share amount is calculated based on our cost of revenues derived from transaction fees, which consist of routing charges and liquidity payments, of \$71.5 million and \$67.8 million for the three months ended September 30, 2003 and 2004, respectively, and \$194.7 million and \$217.8 million for the nine months ended September 30, 2003 and 2004, respectively, and our total U.S. market volume for the relevant period. The cost of revenue from transaction fees used in the per share computation does not include clearance, brokerage and other transaction expenses.

(6) The per share amount is calculated based on our net revenues received from transaction fees, and our total U.S. market volume for the relevant period.

(7) The percentage of customer order volume matched internally is calculated by dividing the volume of customer orders executed within our internal liquidity pool (including the volume of both buy orders and sell orders) by the total volume of customer orders (again including the volume of both buy orders and sell orders when such orders are matched internally). The percentage of customer orders routed out is calculated by dividing the volume of customer orders routed to other market centers by the total volume of customer orders.

For purposes of calculating our volume, we include all shares that are handled on the Archipelago system. Handled shares include both shares that are bought or sold within our internal liquidity pool and shares that are routed to external markets for execution. We count every transaction handled by the Archipelago system exactly once; we do not count both sides of any transaction. For example, if a customer's 10,000 share buy order is matched with another customer's 10,000 share sell order in our internal liquidity pool, our handled volume will be 10,000 shares. As another example, if one of our customers sends us an order to buy 10,000 shares and the best price for that order is displayed at another market center, we will route that order to the other market center for execution. The other market center will report a 10,000 share transaction in the consolidated tape, and our handled volume will be 10,000 shares. As a result, the 10,000 shares we report as handled by us in this example are also handled by the external market center.

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

Transactions in Nasdaq and exchange-listed securities are reported in the consolidated tape, a high-speed system that continuously provides last sale price and volume in listed securities. Our handled volume is higher than our volume reported to the centralized aggregators for inclusion in

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the consolidated tape for two reasons. First, we do not report trades routed to another market center to the centralized aggregators of this data. Instead, the destination market center reports these trades. For example, if a customer's 10,000 share buy order is routed to another market center for execution, our handled volume will be 10,000 shares, but we will not report the trade.

Second, our handled volume includes odd lot transactions, generally defined as trades of fewer than 100 shares, which, by rule, we do not report to the centralized aggregators for inclusion in the consolidated tape. For example, if one of our customers buys 50 shares, our handled volume will be 50 shares but we will not report this trade.

For purposes of calculating our market share, we use the volume of shares that are handled on the Archipelago system (as described above) as the numerator, and the aggregate volume of shares reported by all securities exchanges and associations in the consolidated tape as the denominator. Our market share may be expressed as:

Number of shares handled on the Archipelago system

Overall market volume as reported in the consolidated tape

As an alternative method of calculating market share, we could include in the numerator of the above formula only transactions that we report in the consolidated tape. This would exclude shares routed to other market centers and odd-lot transactions from our market share calculation.

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

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

Results of Operations*Three Months Ended September 30, 2004 versus Three Months Ended September 30, 2003*

The following table sets forth our consolidated statements of operations data for the periods presented:

	Three months ended September 30,		Amount Change	Percentage Change	Percentage of Revenues		
	2003	2004 (In millions)			2003	2004	
Revenues							
Transaction fees	\$ 116.0	\$ 112.7	\$ (3.3)	(2.8)%	91.4%	88.6%	
Market data fees	10.9	14.3	3.4	31.2%	8.6%	11.3%	
Listing fees		0.1	0.1	100.0%	%	0.1%	
Total revenues	126.9	127.1	0.2	0.2%	100.0%	100.0%	
Cost of Revenues							
Liquidity payments	42.8	47.5	(4.7)	(11.0)%	33.7%	37.3%	
Routing charges	28.7	20.3	8.4	29.3%	22.6%	16.0%	
Clearance, brokerage and other transaction expenses	16.0	8.9	7.1	44.4%	12.6%	7.0%	
Total cost of revenues	87.5	76.7	10.8	12.3%	68.9%	60.3%	
Gross margin	39.4	50.4	11.0	27.9%	31.1%	39.7%	
Indirect expenses							
Employee compensation and benefits	10.0	10.6	(0.6)	(6.0)%	7.9%	8.3%	
Depreciation and amortization	10.0	5.0	5.0	50.0%	7.9%	3.9%	
Communications	4.9	5.1	(0.2)	(4.1)%	3.9%	4.0%	
Marketing and promotion	2.4	7.8	(5.4)	(225.0)%	1.9%	6.1%	
Legal and professional	1.4	2.7	(1.3)	(92.9)%	1.1%	2.1%	
Occupancy	1.0	1.2	(0.2)	(20.0)%	0.8%	0.9%	
General and administrative	3.5	3.2	0.3	8.6%	2.8%	2.5%	
Total indirect expenses	33.2	35.6	(2.4)	(7.2)%	26.3%	27.8%	
Operating income	6.2	14.8	8.6	138.7%	4.9%	11.6%	
Interest and other, net	0.3	1.0	0.7	233.3%	0.2%	0.8%	
Income before income tax benefit							