

Archipelago and the Pacific Exchange close transaction to create national stock exchange

CHICAGO AND SAN FRANCISCO (July 13, 2000)--Archipelago, a leading U.S.-based electronic communications network (ECN), and the Pacific Exchange (PCX), the country's most innovative and automated stock exchange, today announced the closing of their transaction that will create the first totally open, electronic stock market in the United States, subject to the approval of the U.S. Securities and Exchange Commission.

The new market, which will be called the Archipelago Exchange, will be the equities trading arm of the PCX, a replacement for the marketplace the PCX offers today, and will operate under its self-regulatory authority. The parties had previously announced their intentions to form a new exchange in March.

The new exchange will offer market participants a fully electronic mechanism for trading New York Stock Exchange (NYSE), American Stock Exchange (AMEX) and Nasdaq stocks. The Archipelago Exchange will be an alternative to the NYSE, AMEX and Nasdaq, within the National Market System, combining the best of current technology with the latest thinking on market structure.

"The Archipelago Exchange will combine our state-of-the-art technology and order execution with the proven regulatory abilities of the Pacific Exchange," said Gerald D. Putnam, chief executive officer of Archipelago. "Our goal for the Archipelago Exchange is to provide participants and investors with the benefits of price improvement, transparency, speed and liquidity. This new market will create a change in paradigm for investors and corporate issuers, differing in dramatic ways from the status quo."

"Over the past year we have been redefining our equity business to meet the dynamic and ever changing equity marketplace," said Philip D. DeFeo, chairman and CEO of the Pacific Exchange. "This partnership with Archipelago furthers our goal to adapt to changing market conditions and transform current membership roles to reflect the markets' evolution."

As part of the transaction, the Pacific Exchange received an equity stake in Archipelago Holdings and a seat on Archipelago's board. Subject to member approval, Archipelago will also have a seat on the board of the Pacific Exchange. Financial terms of the transaction were not disclosed.

Archipelago was formed in December 1996 with software developer, Townsend Analytics. It is one of the original four ECNs approved in January 1997 by the SEC. Since its inception, Archipelago has offered subscribers outbound order preferencing to effectively create a national limit order book for Nasdaq stocks. Its leading-edge technology, open architecture and innovations, such as sweep functionality based on a proprietary algorithm, facilitate the best execution for investors. Archipelago is also the only ECN with major investors in both the institutional and retail financial services sectors. The Archipelago trading system provides investors fast, cost-efficient and anonymous access to the market. Its average daily volume more than tripled since June 1999.

Founded in 1882, the Pacific Exchange today trades more than 2,500 stocks, bonds and other securities issued by publicly traded companies, as well as options on more than 850 stocks. It is the fourth most active stock exchange in the country, and the third largest stock options exchange in the world. The Pacific Exchange has a history of innovation. It was the first exchange in the world with electronic order routing, execution and reporting systems; the first to develop net clearance and settlement systems; and the first exchange in the U.S. to demutualize its equities business. This past May, the SEC approved PCX Equities, Inc. as the nation's first for-profit stock exchange.

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