

International Securities Exchange Holdings, Inc.

Fourth Quarter 2006 Earnings

February 6, 2007



INTERNATIONAL SECURITIES EXCHANGE.

# Forward Looking Statements

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*Certain matters discussed in this presentation are “forward looking statements” intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. 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 those contemplated by the forward looking statements. We undertake no ongoing obligation, other than that imposed by law, to update these statements. Factors that could affect our results, levels of activity, performance or achievements and cause them to materially differ from those contained in the forward looking statements can be found in our filings with the Securities and Exchange Commission, including our annual report on Form 10-K, current reports on Form 8-K and quarterly reports on Form 10-Q, as amended.*



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# Business Update – Q4 2006

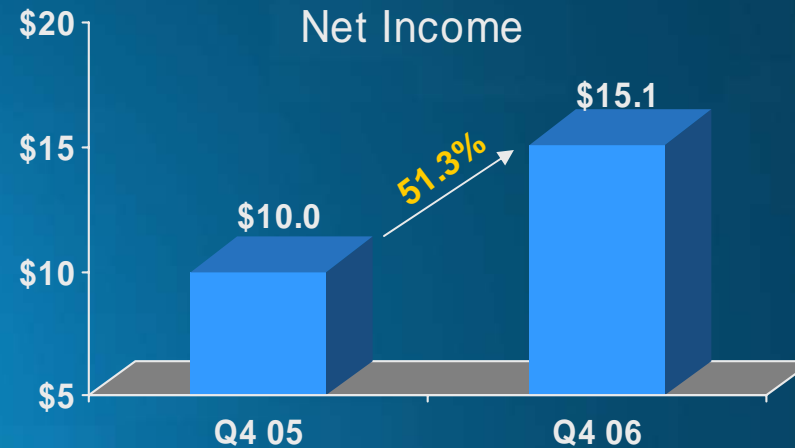
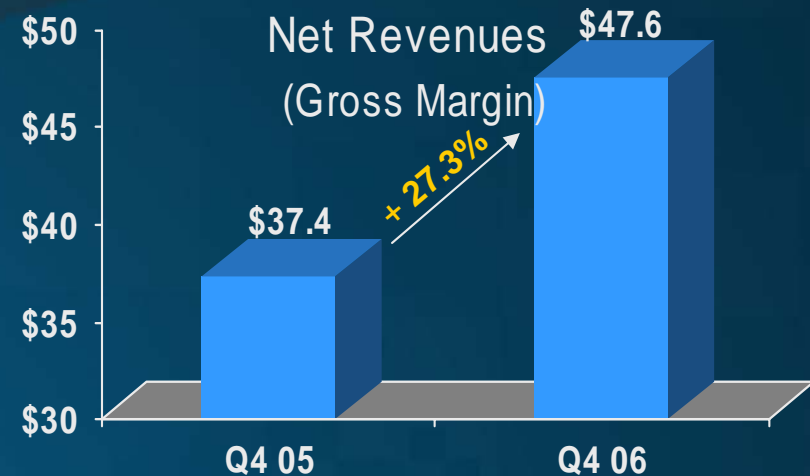
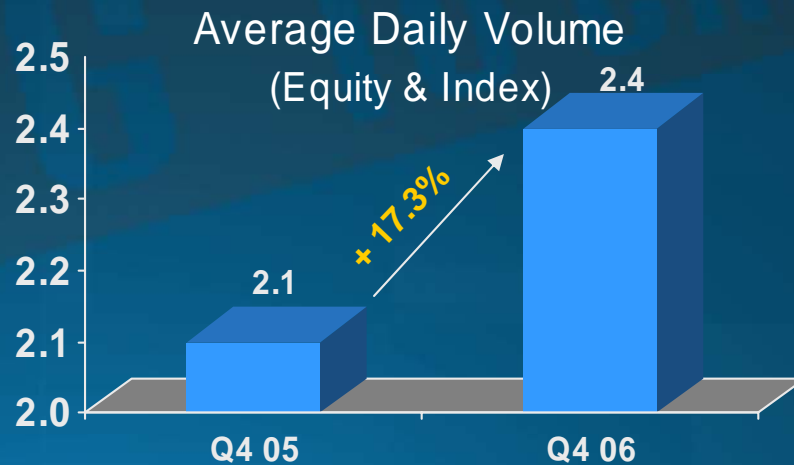
- Delivered solid growth and profitability
  - Record net income
  - Double-digit growth in all key financial metrics
  - Pre-tax margin of 55.8%
- Launched new product offerings in options business
  - Equity options: Second Market
  - Indexes: KBW Bank Index and ISE-Revere Natural Gas Index
  - Market data: ISEE Select
- Further developed ISE Stock Exchange
  - Successful launch of integrated fully displayed market on December 8, 2006



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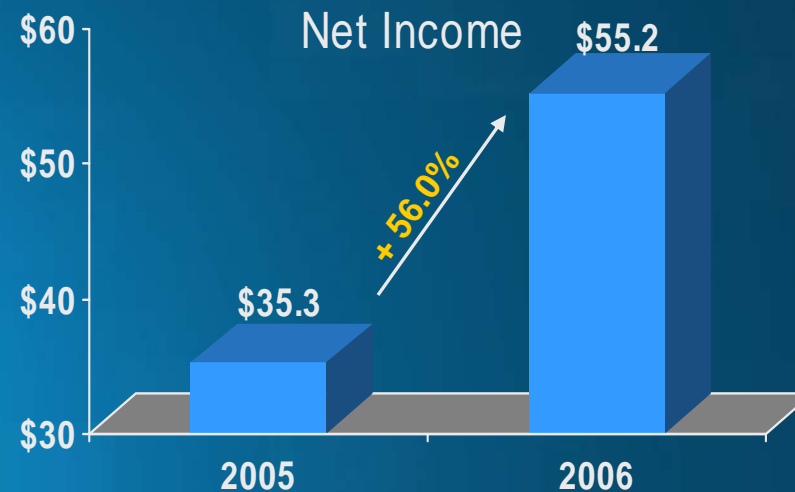
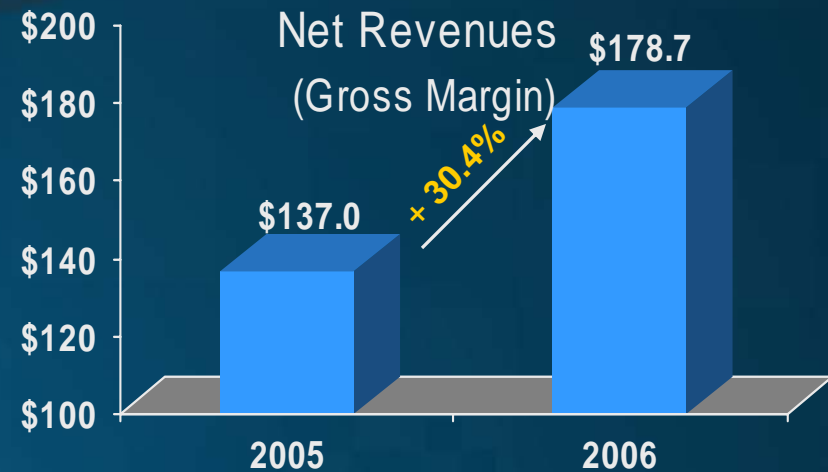
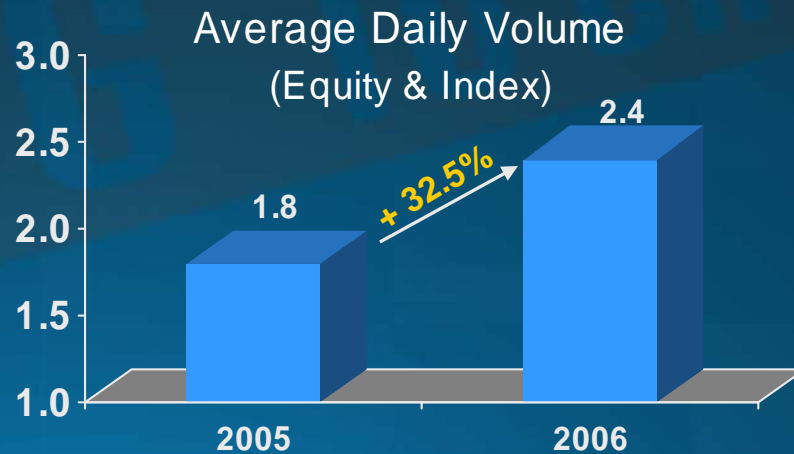
# Summary Quarterly Financials

(in millions)



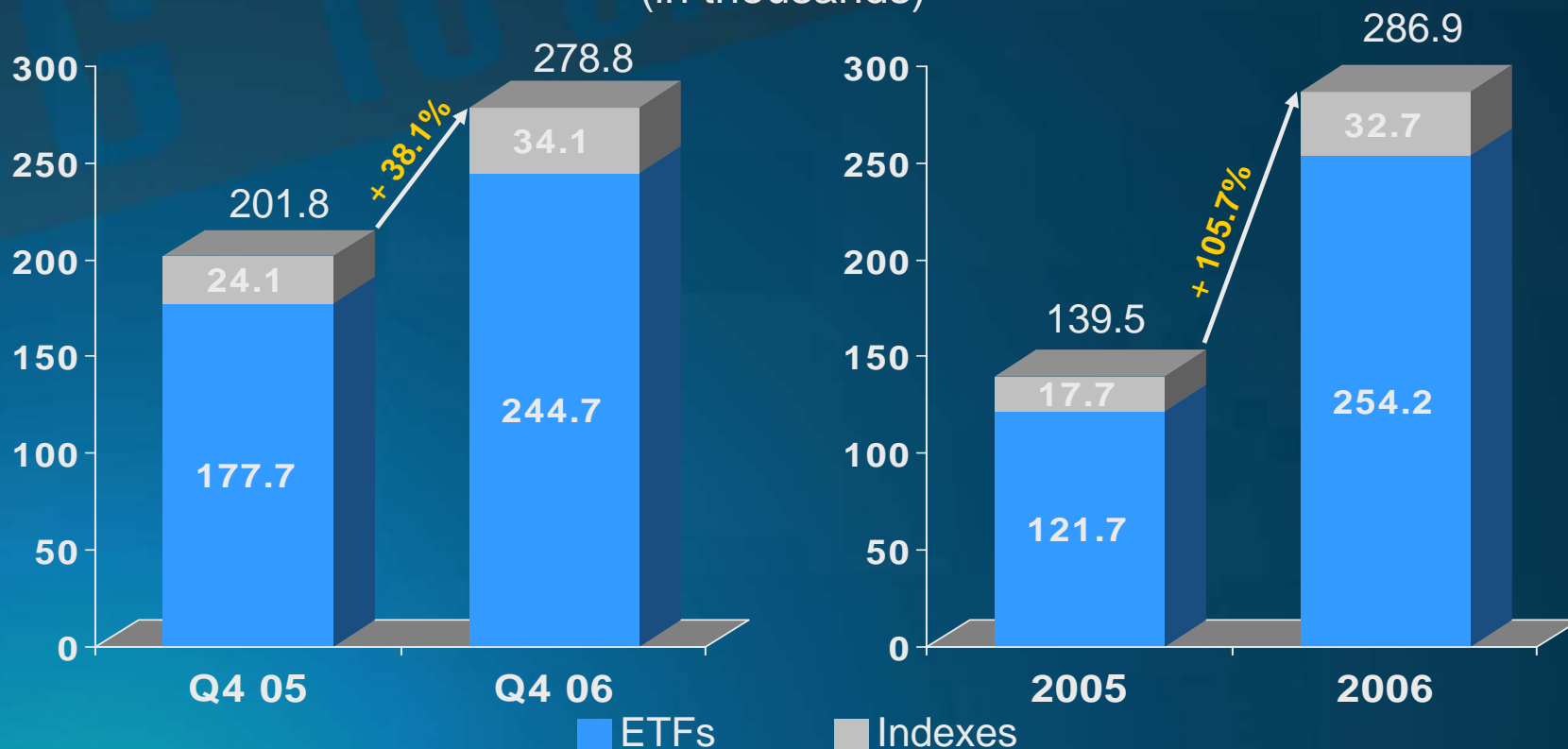
# Summary Full Year Financials

(in millions)



# Premium Products

Average Daily Volume of Premium Products  
(in thousands)

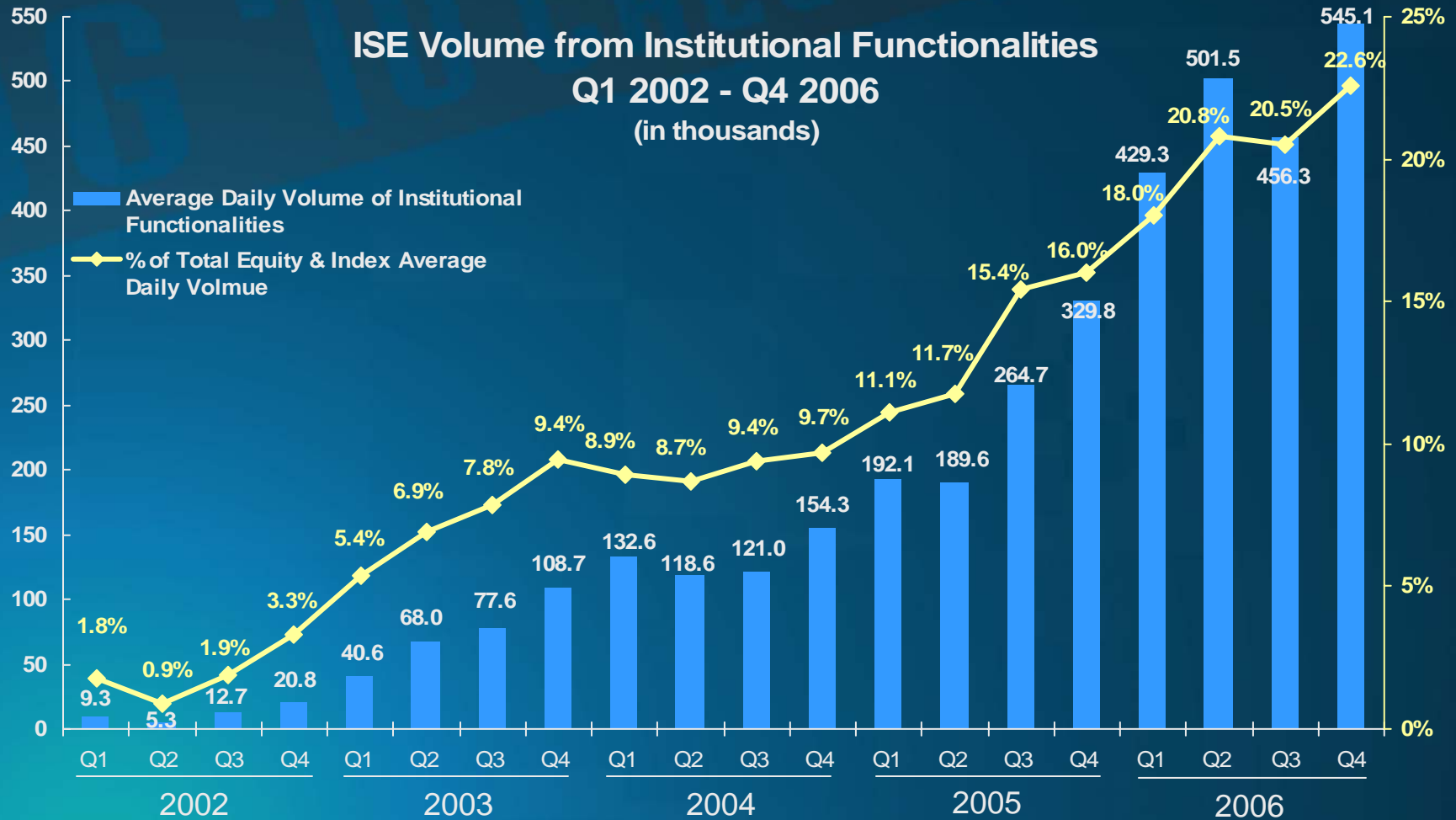


Premium Products Volume +38% vs Q4 05; +106% vs 2005



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# Institutional Opportunities



**Increasing Use of Institutional Functionalities**

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# Quarterly Financial Performance

(\$MM)	Q4 06	Q4 05	Change
Net Revenues (Gross Margin)	\$ 47.6	\$ 37.4	27.3%
Total direct expenses	<u>22.0</u>	<u>19.4</u>	13.3%
Recovery of legal fees	\$ (1.2)	\$ -	n/m
Billing reimbursement	3.3	-	n/m
Offering costs	<u>-</u>	<u>0.6</u>	n/m
Total Expenses	\$ <u>24.1</u>	\$ <u>20.0</u>	20.3%
Operating Income	\$ 23.5	\$ 17.3	35.4%
Interest and investment income	2.9	1.4	110.3%
Minority interest	<u>0.2</u>	<u>-</u>	n/m
Income before provision for income taxes	\$ 26.6	\$ 18.7	41.8%
Provision for income taxes	<u>11.5</u>	<u>8.8</u>	31.0%
Net Income	\$ 15.1	\$ 10.0	51.3%

GAAP EPS (Fully Diluted)	\$ 0.38	\$ 0.26	46.2%
Proforma EPS (Fully Diluted)	\$ 0.41	\$ 0.27	51.9%
Pre-Tax Margin	55.8%	50.1%	5.7 pts



## Significant operating leverage:

- Net Revenues up 27.3%, Net Income up 51.3%
- Expanding Pre-Tax Margins

# Trading Volume (Equity and Index)

(MM)	Q4 06	Q4 05	Change
Average Daily Volume	2.4	2.1	17.3%

Trading Volume Mix			
Customer	40.4%	40.7%	(0.3) pts
Firm Proprietary	13.1%	9.9%	3.2 pts
Market Maker	46.4%	49.4%	(3.0) pts

Average net transaction fee per side	\$ 0.116	\$ 0.106	9.0%
Average fee per revenue side	\$ 0.175	\$ 0.171	2.3%

Average number of issues traded*	1,203	795	51.3%
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- Average daily volume up 17.3%
- Positive impact of Premium Products



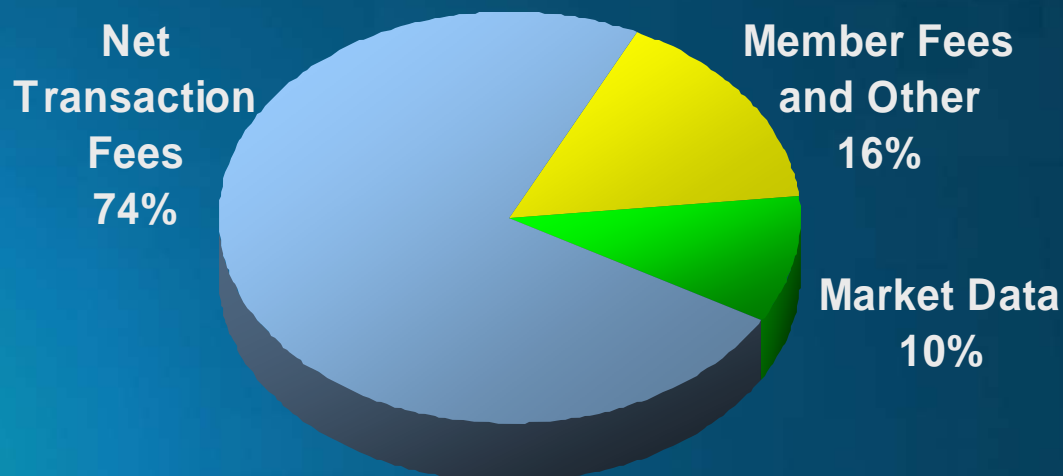
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\* Includes issues listed in the Second Market

# Net Revenues

(\$MM)	Q4 06	Q4 05	Change
Net Transaction Fees	\$ 35.2	\$ 27.5	27.9%
Members Fees and Other	7.5	5.6	32.5%
Market Data	<u>5.0</u>	<u>4.3</u>	16.4%
Net Revenues	\$ 47.6	\$ 37.4	27.3%

Q4 2006 Net Revenues



# Direct Expenses

(\$MM)	Q4 06	Q4 05	Change
Compensation and benefits	\$ 11.3	\$ 9.1	23.5%
Technology and communications	4.0	3.4	17.5%
Occupancy	1.3	1.2	8.0%
Professional fees	1.6	1.9	(18.3)%
Marketing and business development	1.0	1.1	(9.3)%
Depreciation and amortization	1.8	1.5	18.3%
Other	<u>1.1</u>	<u>1.2</u>	(6.3)%
Total direct expenses	\$ 22.0	\$ 19.4	13.3%
Tax rate	43.3%	46.8%	(3.5) pts

Investing for Future Growth



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# Full Year Financial Performance

(\$MM)	2006	2005	Change
Net Revenues (Gross Margin)	\$ 178.7	\$ 137.0	30.4%
Total direct expenses	<u>87.6</u>	<u>74.7</u>	17.2%
Recovery of legal fees	\$ (1.2)	\$ -	n/m
Billing reimbursement	3.3	-	n/m
Reorganization	0.3	0.3	(3.8)%
Offering costs	<u>-</u>	<u>0.9</u>	n/m
Total Expenses	\$ <u>90.0</u>	\$ <u>75.9</u>	18.5%
Operating Income	\$ 88.7	\$ 61.1	45.3%
Interest and investment income	8.4	4.1	105.8%
Minority interest	<u>0.7</u>	<u>-</u>	n/m
Income before provision for income taxes	\$ 97.7	\$ 65.1	50.1%
Provision for income taxes	<u>42.6</u>	<u>29.8</u>	43.0%
Net Income	\$ 55.2	\$ 35.3	56.0%

GAAP EPS (Fully Diluted)	\$ 1.38	\$ 0.93	48.4%
Proforma EPS (Fully Diluted)	\$ 1.42	\$ 0.96	47.9%
Pre-Tax Margin	54.7%	47.5%	7.2 pts

- Net Income up 56.0%
- Pre-Tax Margin of 54.7% (+7.2 pts)

# Summary Cash Flow

(\$MM)	Year ended	
	12/31/2006	12/31/2005
Net cash provided by operating activities	\$ 72.0	\$ 60.1
Net cash provided by/(used in) investing activities	(88.5)	2.6
Net cash provided by/(used in) financing activities	<u>45.6</u>	<u>63.4</u>
Increase in cash and cash equivalents	\$ 29.1	\$ 126.1
Cash and cash equivalents, beginning of period	<u>170.9</u>	<u>44.8</u>
Cash and cash equivalents, end of period	<u>\$ 200.0</u>	<u>\$ 170.9</u>
Investments: Securities Owned	\$ 92.8	\$ 17.1

## Total cash and cash equivalents and investments:

- 12/31/05: \$188.1
- 12/31/06: \$ 292.8



# Summary Balance Sheet

(\$MM)	12/31/2006	12/31/2005
Cash and Cash Equivalents	\$ 200.0	\$ 170.9
Total Assets	396.4	280.5
Total Liabilities	101.8	95.5
Minority Interest	36.3	-
Stockholders' Equity	\$ 258.3	\$ 185.0

Highly liquid, debt-free balance sheet



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# 2006: A Year of Growth and Progress

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- Delivered Double-Digit Top Line and Bottom Line Growth
  - Record volumes, revenues, profits and margins
- Developed and Launched New Businesses
  - ISE Stock Exchange
  - Alternative Markets (Longitude)
  - Market Data: ISEE Select and ISE HOT Data
- Expanded Options Business
  - Institutional segment
  - Second Market
  - Quarterly options
  - Indexes: proprietary and licensed products



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# Challenging the Status Quo

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- Successful Litigation to trade ETF's without a license
  - SPDR<sup>i</sup> ETF (Listed January 5, 2005)\*
  - DIAMONDS<sup>ii</sup> ETF (Listed September 1, 2005)\*
- Pursue other indexes
  - Filed Court Action Seeking to End Exclusive Listing of DJIA and S&P 500 Index Options (November 2, 2006)
- Industry and investors benefit
  - Tighter quotes
  - Increased liquidity
  - Lower fees

\* On June 19, 2006 the U.S. Court of Appeals unanimously affirmed ISE's right to trade options on Exchange Traded Funds without a license



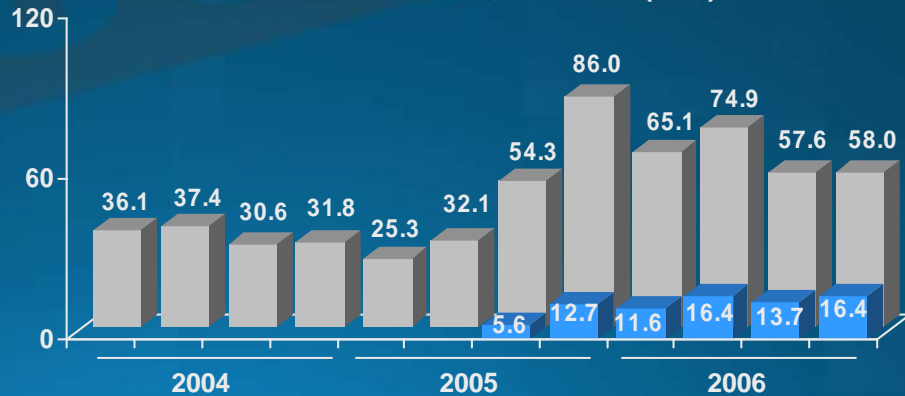
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# Promoting Competition

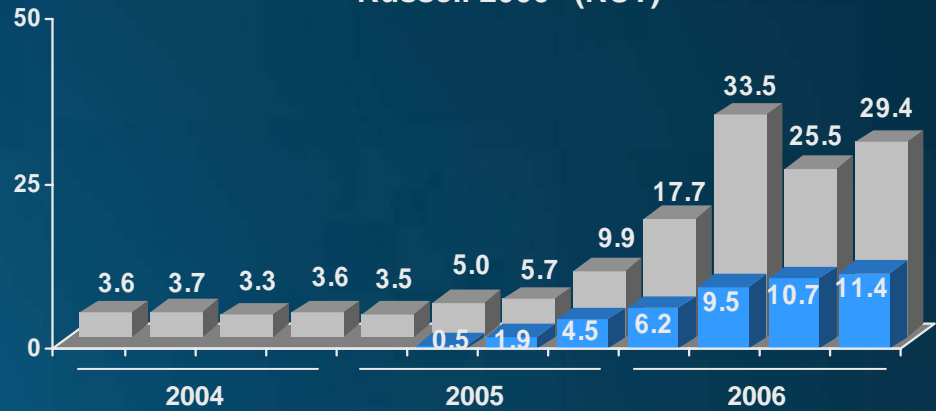
**Average Daily Volume by Quarter**  
**2004 – 2006**  
 (in thousands)

■ Industry Average Daily Volume  
 ■ ISE Average Daily Volume

**Diamonds Trust, Series 1 (DIA)**



**Russell 2000<sup>iii</sup> (RUT)**



**Nasdaq-100<sup>iii</sup> (NDX)**

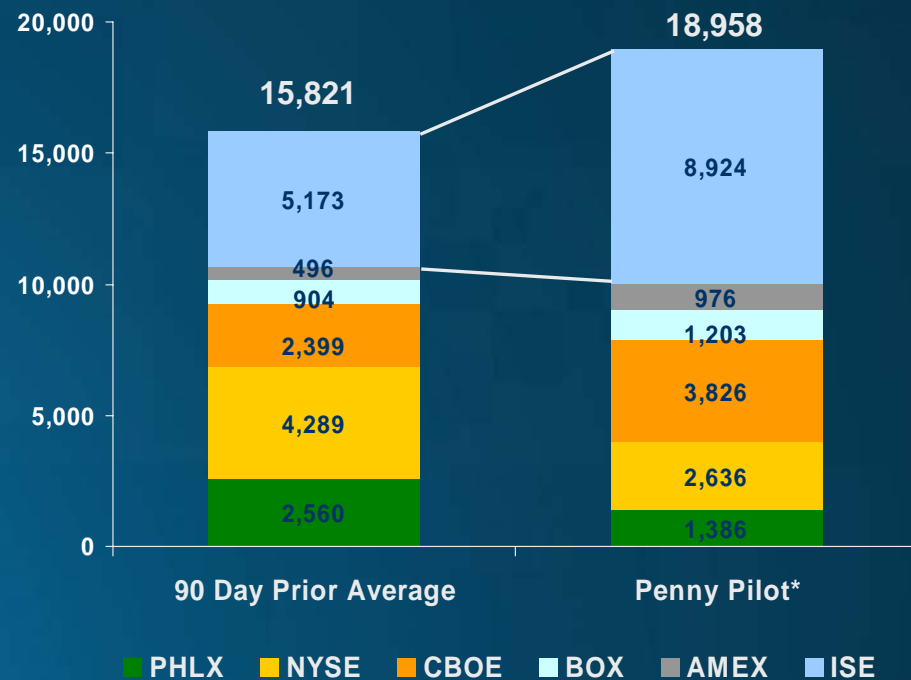


Source: OCC

# Industry Issues

- Options
  - Pennies
  - PFOF
- Equities
  - Reg NMS

Impact of Penny Pilot – Whole Foods (WFMI)  
Average Daily Volume



# Industry Issues

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- Consolidation
- Dividend trades



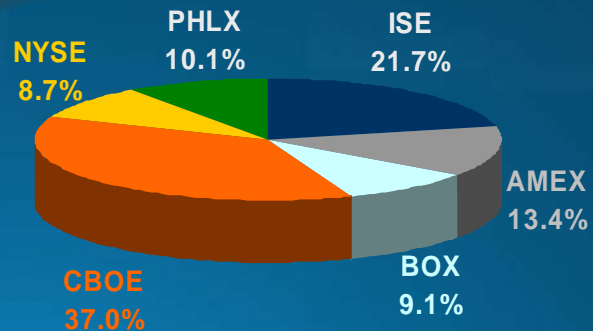
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# Market Share Impact of Dividend Trade Activity

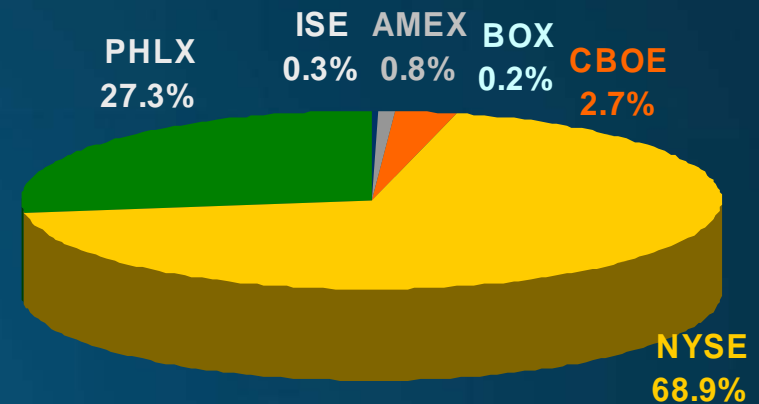
Verizon (VZ), AT&T (T), Progress Energy (PGN), Biovail Corporation (BVF)

Ex-Dividend Date: 1/8/2007

Average Daily Volume 10-Days Prior to 1/5/2007



Volume 1-Day Prior to Ex-Dividend Date (1/5/2007)



(000s)	ISE	AMEX	BOX	CBOE	NYSE	PHLX	Industry
10-day prior ADV	5	3	2	8	2	2	22
Volume on 1/5/07	18	59	5	189	4,900	1,938	7,109

# 2007: Strategy and Growth Initiatives

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- Continue to expand options business
  - Institutional penetration
  - Index options
  - FX options
- Portfolio margining
- Further develop ISE Stock Exchange
  - New users and new members
  - Reg NMS
- Grow Market Data business
- Expand into International markets
- Develop and launch new businesses in complementary and adjacent markets
- Maintain expense management discipline

# GAAP to Non-GAAP Reconciliation

In an effort to provide additional information regarding our results as determined by GAAP, we also disclose certain non-GAAP information which we believe provides useful and meaningful information. Our management reviews this non-GAAP financial measurement when evaluating our financial performance and results of operations; therefore, we believe it is useful to provide information with respect to these non-GAAP measurements so as to share this perspective of management. Non-GAAP measurements do not have any standardized meaning and are therefore unlikely to be comparable to similar measures presented by other companies. These non-GAAP financial measures should be considered in the context with our GAAP results.

We have disclosed financial measures that reference our net transaction fees, which we define as our transaction fees excluding activity remittance fees and license fees. Under GAAP, activity remittance fees and ETF and index license fees are required to be recorded on a gross basis. Since activity remittance fees and ETF and index license fees are entirely offset by corresponding amounts in transaction fees, management believes that presenting net transaction fees provides a clearer measure of our transaction related performance. In addition, we have also disclosed financial measures excluding certain charges or adjustments related to a recovery of legal fees associated with our successful litigation to trade options on SPDRs without a license, reimbursements to members due to an error in our billing system, costs related to our reorganization into a holding company structure and expenses associated with our initial and secondary offerings. Management excludes these items when evaluating the Company's financial performance as they believe these items do not directly relate to the costs of running its business or they do not directly relate to the current period presented as evaluated by management as opposed to accounting standards prescribed under GAAP.

## INTERNATIONAL SECURITIES EXCHANGE HOLDINGS, INC. GAAP TO NON GAAP RECONCILIATION (in thousands, except per share amounts) (unaudited)

	Three Months Ended December 31,		Year Ended December 31,	
	2006	2005	2006	2005
<b>GAAP Transaction fees, as reported</b>	\$ 40,925	\$ 33,689	\$ 157,252	\$ 116,121
Less activity remittance fees	4,549	4,837	16,125	14,075
Less license fees	1,207	1,362	7,259	4,816
<b>Net transaction fees, proforma</b>	<b>\$ 35,169</b>	<b>\$ 27,490</b>	<b>\$ 133,868</b>	<b>\$ 97,230</b>
<b>GAAP Income before provision for income taxes, as reported</b>	\$ 26,572	\$ 18,738	\$ 97,742	\$ 65,130
Less Recovery of legal fees	(1,210)	-	(1,210)	-
Less Billing reimbursement	3,297	-	3,297	-
Less Reorganization	-	34	326	339
Less Offering costs	-	569	-	902
<b>Income before provision for income taxes, proforma</b>	<b>\$ 28,659</b>	<b>\$ 19,341</b>	<b>\$ 100,155</b>	<b>\$ 66,371</b>
<b>GAAP Net income, as reported</b>	\$ 15,073	\$ 9,960	\$ 55,152	\$ 35,347
Less Recovery of legal fees, net of tax	(683)	-	(683)	-
Less Billing reimbursement, net of tax	1,861	-	1,861	-
Less Reorganization, net of tax	-	34	326	339
Less Offering costs, net of tax	-	569	-	902
<b>Net income, proforma</b>	<b>\$ 16,251</b>	<b>\$ 10,563</b>	<b>\$ 56,656</b>	<b>\$ 36,588</b>
<b>GAAP Diluted earnings per share, as reported</b>	\$ 0.38	\$ 0.26	\$ 1.38	\$ 0.93
Less Recovery of legal fees, net of tax	(0.02)	-	(0.02)	-
Less Billing adjustment, net of tax	0.05	-	0.05	-
Less Reorganization, net of tax	-	0.00	0.01	0.01
Less Offering costs, net of tax	-	0.01	-	0.02
<b>Diluted earnings per share, proforma</b>	<b>\$ 0.41</b>	<b>\$ 0.27</b>	<b>\$ 1.42</b>	<b>\$ 0.96</b>
Gross Margin	47,593	37,384	178,697	137,008
<b>GAAP pre-tax margins, as reported</b>	<b>55.8%</b>	<b>50.1%</b>	<b>54.7%</b>	<b>47.5%</b>
<b>Pre-tax margins, proforma</b>	<b>60.2%</b>	<b>51.7%</b>	<b>56.0%</b>	<b>48.4%</b>



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# Appendix

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