NYSE Group, Inc.
Form 10-Q
August 11, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(MARK ONE)

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2006

OR

o 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: 001-32829

NYSE GROUP, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	**20-2786071**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

11 Wall Street
New York, New York 10005
(Address, including zip code, of Registrant's principal executive offices)

(212) 656-3000
(Registrant's telephone number including area code)

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 x No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Large Accelerated Filer Accelerated Filer Non-accelerated Filer x

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

As of August 1, 2006, the registrant had approximately 156.1 million shares of common stock, $0.01 par value per share, outstanding.

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CERTAIN TERMS

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

· "NYSE Group," "we," "us" and "our" refer to NYSE Group, Inc., a Delaware corporation, and its subsidiaries, which, following the merger, include the NYSE and Archipelago;

· "NYSE" refers to (i) prior to the completion of the merger, New York Stock Exchange, Inc., a New York Type A not-for-profit corporation, and (ii) after the completion of the merger, New York Stock Exchange LLC, a New York limited liability company, and its subsidiaries, NYSE Market, Inc., a Delaware corporation ("NYSE Market"), and NYSE Regulation, Inc., a New York not-for-profit corporation ("NYSE Regulation");

· "Archipelago" refers to, prior to and following the completion of the merger, Archipelago Holdings, Inc., a Delaware corporation, and, where the context requires, its predecessor, Archipelago Holdings, LLC, a Delaware limited liability company;

· "NYSE Arca" refers to NYSE Arca, L.L.C., a Delaware limited liability company (formerly known as Archipelago Exchange, L.L.C.), 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.);

· "merger" refers to the mergers combining the NYSE and Archipelago under NYSE Group, which were completed on March 7, 2006; and

· "combination" refers to the proposed combination of NYSE Group and Euronext, N.V. ("Euronext") and certain related transactions which, upon completion, would combine the businesses of NYSE Group and Euronext under NYSE Euronext, Inc., a Delaware corporation ("NYSE Euronext").

FORWARD-LOOKING STATEMENTS

This quarterly report on Form 10-Q contains 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,” “ “estimate,” “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 “Risk Factors” in our annual report on Form 10-K for the year ended December 31, 2005.

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.

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.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

NYSE GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(In thousands, except per share data)

	June 30, 2006 (Unaudited)	December 31, 2005
Assets		
Current assets:		
Cash and cash equivalents	$ 272,666	$ 43,492
Investment securities, at fair value	797,151	980,591
Securities purchased under agreements to resell	35,534	127,888
Accounts receivable, net	314,366	184,185
Deferred income taxes	91,156	91,919
Other assets	46,769	36,142
Total current assets	1,557,642	1,464,217
Property and equipment, net	403,603	343,534
Goodwill	528,771	-
Other intangible assets, net	583,895	-
Deferred income taxes	331,589	290,145
Other assets	89,449	106,249
Total assets	$ 3,494,949	$ 2,204,145
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 337,905	$ 322,263
Section 31 fees payable	371,643	232,146
Deferred revenue	243,899	105,313
Deferred income taxes	46,018	25,238
Total current liabilities	999,465	684,960
Accrued employee benefits	326,459	323,373
Deferred revenue	325,162	329,197
Deferred income taxes	251,637	9,289
Other liabilities	29,493	23,037
Total liabilities	1,932,216	1,369,856
Minority interest	37,193	35,164
Commitments and contingencies		
Stockholders' equity		
Members' equity	-	807,781
	1,577	-

Common stock, $0.01 par value, 400,000 shares authorized; 157,727 and 0 shares issued; 156,082 and 0 shares outstanding				
Common stock held in treasury, at cost: 1,645 and 0 shares		(65,569)		-
Additional paid-in capital		1,535,399		-
Retained earnings		62,882		-
Accumulated other comprehensive loss		(8,749)		(8,656)
Total stockholders' equity		1,525,540		799,125
Total liabilities and stockholders' equity	$	3,494,949	$	2,204,145

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

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NYSE GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share data)
(Unaudited)

	Three months ended June 30, 2006	Three months ended June 30, 2005	Six months ended June 30, 2006	Six months ended June 30, 2005
Revenues				
Activity assessment	$ 189,766	$ 141,773	$ 328,975	$ 234,713
Transaction	198,009	37,806	274,160	75,759
Listing	88,768	85,465	177,236	171,460
Market data	60,390	46,290	108,605	90,440
Data processing	41,881	47,759	81,272	92,664
Regulatory	44,740	32,614	85,164	62,233
Licensing, facility and other	35,986	13,104	59,064	28,038
Total revenues	659,540	404,811	1,114,476	755,307
Section 31 fees	(189,766)	(141,773)	(328,975)	(234,713)
Merger expenses and related exit costs	(9,681)	-	(12,295)	-
Compensation	(138,403)	(128,337)	(306,852)	(257,013)
Liquidity payments	(74,821)	-	(93,791)	-
Routing and clearing	(23,400)	-	(29,603)	-
Systems and communications	(30,682)	(32,038)	(60,584)	(63,794)
Professional services	(29,424)	(34,155)	(57,319)	(61,051)
Depreciation and amortization	(36,077)	(26,446)	(64,240)	(52,619)
Occupancy	(21,454)	(17,078)	(40,064)	(33,939)
Marketing and other	(28,027)	(17,546)	(47,018)	(31,758)
Regulatory fine income	6,222	1,268	23,161	21,977
Operating income	84,027	8,706	96,896	42,397
Investment and other income, net	17,017	12,920	33,838	23,192
Gain on sale of equity investment	-	-	20,925	-
Income before income tax provision and minority interest	101,044	21,626	151,659	65,589
Income tax provision	(38,542)	(7,415)	(58,265)	(26,224)
Minority interest in income of consolidated subsidiary	(1,329)	(1,225)	(1,873)	(360)
Net income	$ 61,173	$ 12,986	$ 91,521	$ 39,005
Basic earnings per share	$ 0.39	$ 0.11	$ 0.65	$ 0.34
Diluted earnings per share	$ 0.39	$ 0.11	$ 0.64	$ 0.34
Basic weighted average shares outstanding	156,422	115,699 (a)	141,619	115,699 (a)
Diluted weighted average shares outstanding	157,428	115,699 (a)	142,716	115,699 (a)

(a) Adjusted to reflect the March 7, 2006 merger with Archipelago, giving retroactive effect to the issuance of shares to former NYSE members. See Note 1 to the condensed consolidated financial statements.

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

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NYSE GROUP, INC.
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY FOR THE SIX MONTHS ENDED JUNE 30, 2006
(In thousands)
(Unaudited)

		Common Stock						
	Members' Equity	Shares	Par Value	Treasury Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance as of December 31, 2005	$ 807,781	-	$ -	$ -	$ -	$ -	$ (8,656)	$ 799,125
Net income for the period from January 1 to March 7, 2006	28,639	-	-	-	-	-	1,275	29,914
Members' distribution	(409,800)	-	-	-	-	-	-	(409,800)
Members' dividend	(96,400)	-	-	-	-	-	-	(96,400)
Exchange of NYSE membership interest	(330,220)	109,522	1,095	-	329,125	-	-	-
Merger with Archipelago	-	47,625	476	(65,569)	1,150,206	-	-	1,085,113
Employee stock transactions	-	580	6	-	56,068	-	-	56,074
Net income for the period from March 8 to June 30, 2006	-	-	-	-	-	62,882	(1,368)	61,514
Balance as of June 30, 2006	$ -	157,727	$ 1,577	$ (65,569)	$ 1,535,399	$ 62,882	$ (8,749)	$ 1,525,540

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

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NYSE GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Six months ended June 30, 2006	Six months ended June 30, 2005
Cash flows from operating activities:		
Net income	$ 91,521	$ 39,005
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	64,240	52,619
(Gain) loss on disposition of assets	(84)	2,291
Minority interest	2,029	178
Deferred income taxes	(4,082)	(1,853)
Provision for losses on accounts receivable	1,530	(650)
Stock based compensation	40,525	-
Gain on sale of equity investment	(20,925)	-
Change in operating assets and liabilities:		
Accounts receivable, net	(56,286)	(28,953)
Other assets	(13,512)	8,656
Accounts payable, accrued expenses and SEC transaction fee payable	(13,642)	124,675
Deferred revenue	148,978	131,715
Accrued employee benefits	3,086	4,111
Net cash provided by operating activities	243,378	331,794
Cash flows from investing activities:		
Cash acquired in Archipelago merger	218,201	-
Sales of investment securities	7,456,182	3,603,804
Purchases of investment securities	(7,272,836)	(3,857,165)
Net sales of securities purchased under agreements to resell	92,354	8,135
Purchases of property and equipment	(39,802)	(54,376)
Sale (purchase) of equity investment	25,784	(10)
Net cash provided by (used in) investing activities	479,883	(299,612)
Cash flows from financing activities:		
Distribution to former Members	(409,800)	-
Dividend to former Members	(96,400)	-
Employee stock transactions	15,697	-
Principal payment of capital lease obligations	(3,584)	(4,013)
Net cash used in financing activities	(494,087)	(4,013)
Net increase in cash and cash equivalents for the period	229,174	28,169
Cash and cash equivalents at beginning of period	43,492	15,456
Cash and cash equivalents at end of period	$ 272,666	$ 43,625
Supplemental disclosures:		
Cash paid for income taxes	$ 38,409	$ 12,500
Cash paid for interest	$ 1,155	$ 2,513
Non- cash investing and financing activities:		
Exchange of NYSE membership interest	$ 330,220	-

Merger with Archipelago	$	1,085,113	-

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

NYSE GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 - Organization and Description of Business

NYSE Group is a holding company that, through its subsidiaries, operates two securities exchanges: the NYSE and NYSE Arca. NYSE Group is a leading provider of securities listing, trading and market data products and services. NYSE Group was formed in connection with the merger of the NYSE and Archipelago, which was completed on March 7, 2006. NYSE Group common stock is listed on the NYSE under the symbol "NYX".

The NYSE is the world's largest cash equities exchange. The NYSE is approximately three times the size of the next largest cash equities exchange in the world in terms of aggregate market capitalization of domestic listed companies.

NYSE Arca operates the first open, all-electronic stock exchange in the United States and has one of the leading market positions in trading exchange-traded funds ("ETFs") and exchange-listed securities. NYSE Arca is also an exchange for trading equity options.

The NYSE owns two-thirds of the Securities Industry Automation Corporation ("SIAC") and reports SIAC's financial results on a consolidated basis. SIAC is an important industry resource providing critical automation and communications services to the NYSE, the American Stock Exchange LLC ("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. In addition, SIAC provides telecommunication and managed services through its wholly owned subsidiary, Sector, Inc. ("Sector"), to subscribers primarily in the securities industry.

The regulatory functions of the NYSE and NYSE Arca are conducted by NYSE Regulation, a separate not-for-profit subsidiary of NYSE Group.

Note 2 - Basis of Presentation

The accompanying condensed consolidated financial statements include the accounts of NYSE Group and all wholly-owned subsidiaries, as well as of SIAC. The results of operations of Archipelago have been included in NYSE Group's results of operations since March 8, 2006.

The accompanying condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States and reflect all adjustments, consisting of only normal recurring adjustments, that are, in the opinion of management, necessary for a fair statement of the results for the period. All material intercompany accounts and transactions have been eliminated in consolidation. Certain information and footnote disclosures normally included in financial statements, which are normally required under accounting principles generally accepted in the United States, have been condensed or omitted; however, management believes that the disclosures are adequate to make the information presented not misleading.

The preparation of these condensed consolidated financial statements, in conformity with accounting principles generally accepted in the United States, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could be materially different from these estimates. Certain prior period amounts have been reclassified to conform to the current

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period's presentation.

The condensed consolidated financial statements are unaudited and should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2005, included in the NYSE Group annual report on Form 10-K filed with the SEC on March 31, 2006. Operating results for the three and six months ended June 30, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006.

Note 3 - Business Combinations

Archipelago Holdings, Inc.

On March 7, 2006, Archipelago and the NYSE combined their businesses and became wholly-owned subsidiaries of NYSE Group, a newly created, for profit and publicly traded holding company. Through the merger, NYSE Group intends to continue to grow market position in trading volume and enhance the trading technology of both the NYSE and NYSE Arca. Together, the NYSE and NYSE Arca provide a full-service market that offers customers a choice of products and appeals to all types of investors.

On March 7, 2006, each of the 1,366 members of the NYSE was entitled to receive $300,000 in cash and 80,177 shares of NYSE Group common stock in exchange for its NYSE membership. In addition, a cash dividend of $70,571 was declared and paid to each of the 1,366 members. Each NYSE member had the opportunity to make either a cash election to increase the cash portion (and decrease the stock portion) of their merger consideration, or a stock election to increase the stock portion (and decrease the cash portion) of their merger consideration. The aggregate number of shares of NYSE Group common stock issued to all of the NYSE members in the merger, together with the aggregate number of shares reserved for issuance to NYSE employees, equaled approximately 70% of NYSE Group common stock issued and outstanding, or approximately 109.5 million shares.

On March 7, 2006, (i) each share of the issued and outstanding shares of Archipelago's common stock was converted automatically into the right to receive one share of NYSE Group common stock, (ii) all outstanding stock options of Archipelago, whether vested or unvested, converted into options to purchase an equivalent number of shares of NYSE Group common stock, and (iii) all outstanding restricted stock units of Archipelago converted into an equal number of restricted stock units of NYSE Group common stock. The aggregate number of shares (including shares underlying stock options and restricted stock units) received by Archipelago stockholders, equaled approximately 30% of the issued and outstanding shares of NYSE Group common stock, or approximately 46.0 million shares.

Under the purchase method of accounting, the total merger consideration, which was determined based on the fair market value of Archipelago common stock beginning two days before and ending after April 20, 2005 (the date the merger was agreed to and announced), was $1,085.1 million. The results of operations of Archipelago have been included in NYSE Group's results of operations since March 8, 2006.

The following is a summary of the purchase price in the Archipelago merger (in thousands):

Purchase price	$ 1,085,113
Acquisition costs	25,422
Total purchase price	$ 1,110,535

The purchase price was allocated to the assets acquired and liabilities assumed based on the estimated fair value of Archipelago net assets as of the merger date as follows (in thousands):

Historical cost of net assets acquired	$ 458,290
Elimination of Archipelago's historical goodwill and intangibles	(240,095)
Adjustment to fair value of property and equipment	17,000
Deferred tax impact of purchase accounting adjustments	(233,531)
Fair value of identifiable intangible assets	584,500
Other	(4,400)
Goodwill	528,771
Total purchase price	$ 1,110,535

The allocation of the purchase price to Archipelago assets and liabilities are only preliminary allocations based on estimates of fair values and will change when estimates are finalized. Therefore, the information above is subject to change pending the final allocation of purchase price. NYSE Group does not expect any of the goodwill to be deductible for tax purposes.

During 2005, NYSE Group adopted a plan to eliminate positions. As a result of this decision, NYSE Group recorded a $3.9 million charge consisting of severance and related costs during 2005. For the six months ended June 30, 2006, NYSE Group recorded a $5.8 million charge due to 77 additional positions being eliminated as a result of our continued integration efforts and cost containment initiatives. These positions were primarily included within trading floor operations and miscellaneous administrative areas. The following is a summary of the severance charges and utilization for the six months ended June 30, 2006 and the remaining accrual at June 30, 2006 (in thousands):

Balance at December 31, 2005	$ 3,804
Additional severance	5,825
Amount paid in 2006	(1,423)
Balance at June 30, 2006	$ 8,206

These costs associated with the additional severance for the six months ended June 30, 2006 are included in merger expenses and related exits costs in the condensed consolidated statements of income. Based on current severance dates and the accrued severance at June 30, 2006, NYSE Group expects to pay these amounts through 2007.

PCX Holdings, Inc. and Wave Securities, LLC.

On September 26, 2005, Archipelago completed its acquisition of PCX Holdings ("PCX") for a total purchase price of approximately $94.0 million consisting of a $90.9 million cash payment to PCX stockholders and certain employees of PCX, and approximately $3.1 million of direct acquisition costs incurred by Archipelago. As part of the acquisition of PCX, Archipelago undertook to divest Wave Securities LLC ("Wave Securities"), a previously wholly-owned subsidiary of Archipelago. On March 3, 2006, Archipelago completed the sale of Wave Securities.

Pro Forma Results

The following table provides pro forma results of operations as if (i) the acquisition of PCX by Archipelago, (ii) the disposition of Wave Securities by Archipelago and (iii) the

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merger between Archipelago and NYSE had been completed at the beginning of the earliest period presented (in thousands, except per share data):

	Three months ended June 30, 2006	Three months ended June 30, 2005	Six months ended June 30, 2006	Six months ended June 30, 2005
Revenues	$ 659,540	$ 583,044	$ 1,258,460	$ 1,102,259
Net income	66,885	17,949	126,864	55,209
Basic earnings per share	$ 0.43	$ 0.11	$ 0.81	$ 0.34
Diluted earnings per share	$ 0.42	$ 0.11	$ 0.81	$ 0.34

Pro forma results do not include any anticipated cost savings or other effects of the planned integration of NYSE and Archipelago's businesses.

Note 4 - Combination with Euronext N.V.

On May 22, 2006, NYSE Group proposed a business combination with Euronext-which would create NYSE Euronext, a global marketplace with an expected combined market capitalization of approximately $21 billion.

Euronext is a cross-border exchange providing international services for regulated cash markets and derivative markets in Belgium, France, the United Kingdom, the Netherlands and Portugal.

Both parties signed a definitive combination agreement on June 1, 2006. The combination is expected to close during the first quarter of 2007 and is subject to regulatory approval and the approval of NYSE Group and Euronext shareholders.

In the combination, NYSE Group and Euronext will combine their businesses under NYSE Euronext, a Delaware corporation formed for the purpose of this transaction. Euronext's business will be brought under NYSE Euronext through an exchange offer and a post-closing reorganization, and NYSE Group's business will be brought under NYSE Euronext through a merger.

In the exchange offer, NYSE Euronext will offer to acquire each outstanding Euronext ordinary share in exchange for €21.32 in cash and 0.98 of a share of NYSE Euronext common stock. The exchange offer also will have a mix and match election to permit Euronext shareholders to elect all cash or all stock in exchange for their Euronext ordinary shares, subject to proration to ensure that the total amount of cash paid, and the total number of shares of NYSE Euronext common stock issued, in the exchange offer to the Euronext shareholders, as a whole, are equal to the total amount of cash and number of shares that would have been paid and issued if all Euronext shareholders received the standard offer consideration.

Immediately after the successful completion of the exchange offer, a wholly owned subsidiary of NYSE Euronext will merge with NYSE Group, and, as a result, NYSE Group will become a wholly owned subsidiary of NYSE Euronext, and each share of NYSE Group common stock will be converted into the right to receive one share of NYSE Euronext common stock.

As soon as possible after the completion of these transactions, NYSE Euronext intends to effectuate a corporate reorganization of Euronext and its subsidiaries for the purpose of providing Euronext shareholders who did not exchange their Euronext ordinary shares in the exchange offer with the same consideration that such shareholders would have received

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had they tendered their Euronext ordinary shares in the exchange offer.

Note 5 - Segment Information

Subsequent to the merger with Archipelago, NYSE Group operates under three reportable segments: Market, SIAC Services and Regulation. NYSE Group's segments are managed and operated as three business units and organized based on services provided to customers.

Market represents primarily the fees earned from (i) obtaining new listings and servicing existing listings on the NYSE and NYSE Arca, (ii) providing access to trade execution, (iii) distributing market information to data subscribers and (iv) issuing trading licenses (previously membership fees).

SIAC Services provides communication and data processing operations and systems development functions to the NYSE and third party customers.

Regulation provides regulatory services (including member firm regulation, market surveillance, enforcement, listed company compliance and arbitration), performed by NYSE Regulation, to the NYSE and NYSE Arca. Regulatory fees are paid by member organizations and are primarily assessed based upon their Gross FOCUS revenues. In addition, Regulation collects regulatory fines that are levied against members and member organizations.

Summarized financial data concerning NYSE Group's reportable segments is as follows (in thousands):

Three months ended June 30,	**Market**	**SIAC Services**	**Regulation**	**Corporate Items and Eliminations**	**Consolidated**
2006					
Revenues	$ 602,656	$ 96,272	$ 74,960	$ (114,348)	$ 659,540
Operating income	67,536	2,366	14,125	-	84,027
2005					
Revenues	$ 355,560	$ 113,534	$ 61,250	$ (125,533)	$ 404,811
Operating income (loss)	7,594	2,120	(1,008)	-	8,706

Six months ended June 30,	**Market**	**SIAC Services**	**Regulation**	**Corporate Items and Eliminations**	**Consolidated**
2006					
Revenues	$ 1,019,092	$ 193,055	$ 153,200	$ (250,871)	$ 1,114,476
Operating income (loss)	80,563	(10,753)	27,086	-	96,896
2005					
Revenues	$ 660,054	$ 220,552	$ 118,288	$ (243,587)	$ 755,307
Operating income (loss)	27,449	(1,327)	16,275	-	42,397

SIAC operates on a cost recovery model driven by its customers' demands. Under this model, any increase or decrease in SIAC's expenses typically results in a corresponding change in its revenues. During the three and six months ended June 30, 2006, SIAC incurred $2.0 million and $15.6 million, respectively, related to stock-based compensation for awards granted to certain of its employees as part of the merger with Archipelago. There was no corresponding increase in revenue, as this expense was not shared with non-NYSE Group

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customers.

Note 6 - Goodwill and Other Intangible Assets

The following table presents the details of the intangible assets and goodwill acquired by reportable segment (in thousands):

	Market		Regulation		SIAC Services	
	Estimated Fair Value	Useful Life (in years)	Estimated Fair Value	Useful Life (in years)	Estimated Fair Value	Useful Life (in years)
Asset class:						
National securities exchange registration	$ 511,000	Indefinite	-	N/A	-	N/A
Customer relationships	34,700	20	-	N/A	-	N/A
Trade names	38,800	20	-	N/A	-	N/A
Total intangibles	$ 584,500		-		-	
Goodwill	$ 528,771					

Amortization expense for the intangible assets was approximately $0.9 million and $1.2 million for the three and six months ended June 30, 2006, respectively.

The estimated future amortization expense of purchased intangible assets as of June 30, 2006 is as follows (in thousands):

Year ending December 31,	
2006 (period from July 1 to December 31, 2006)	$ 1,838
2007	3,675
2008	3,675
2009	3,675
2010	3,675
Thereafter	55,738
Total	$ 72,276

Note 7 - Stock Based Compensation

Statement of Financial Accounting Standards (“SFAS”) 123R, “Share-Based Payment”, requires that compensation costs associated with share-based payment transactions be recognized in financial statements. NYSE Group adopted SFAS 123R during the first quarter of 2006.

Effective March 8, 2006, NYSE Group adopted the NYSE Group, Inc. Stock Incentive Plan (the “Plan”) and converted three Archipelago long-term incentive plans. As part of the merger with Archipelago, 0.2 million shares underlying restricted stock units granted to former Archipelago directors, officers and employees and 2.6 million shares underlying stock options granted to former Archipelago directors, officers and employees were converted to restricted stock and stock options, respectively, of NYSE Group.

On March 8, 2006, NYSE Group granted approximately 1.2 million restricted stock units to NYSE employees and certain SIAC employees under the Plan. These restricted stock units vest 50% on the grant date and 25% on each of the first and second anniversaries of the grant date. Compensation expense is based on the market price of the shares underlying the awards on the grant date and recognized ratably over the vesting period. NYSE Group estimates an expected forfeiture rate while recognizing the expense associated with these awards. As of June 30, 2006, the employees of NYSE Group held approximately 1.8 million stock options with a weighted average exercise price of $14.09 (1.4 million of which were exercisable at a weighted average exercise price of $14.37) and 1.4 million restricted stock units. As of June 30, 2006, the total aggregate intrinsic value of stock options outstanding and exercisable was $99.5 million and $77.1 million, respectively.

For the three and six months ended June 30, 2006, NYSE Group recorded $5.9 million and $40.5 million, respectively, of stock based compensation included in compensation in the condensed consolidated statements of income. As of June 30, 2006, there was approximately $23.9 million of total unrecognized compensation cost related to stock options and restricted stock units. This cost is expected to be recognized over approximately three years.

Note 8 - Retirement Benefits

During 2005, the NYSE and SIAC announced that effective March 31, 2006, the future benefit accrual of all active participants in the pension plans and supplemental executive retirement plan (“SERP”) will be frozen. Effective April 1, 2006, NYSE Group employees became eligible to receive benefits from a new employer-funded defined contribution Retirement Benefit Accumulation Plan (“RBAP”). RBAP expense incurred for the three months ended June 30, 2006 was $2.8 million.

NYSE and SIAC currently do not expect to provide any additional funding to the pension plans during 2006.

The following table sets forth the pension and SERP plans’ amounts recognized (in thousands):

	Pension Plan Cost							
	Three months ended June 30,				Six months ended June 30,			
	2006		2005		2006		2005	
	NYSE	SIAC	NYSE	SIAC	NYSE	SIAC	NYSE	SIAC
Cost of benefits earned	$ (185)	$ -	$ 3,472	$ 2,897	$ 2,643	$ 2,495	$ 6,944	$ 5,795
Interest on benefits earned	5,545	2,966	5,589	3,508	10,979	5,932	11,178	7,017
Net amortizations	(252)	154	280	44	39	308	561	87
Estimated return on plan assets	(8,114)	(4,249)	(7,412)	(4,237)	(15,886)	(8,498)	(14,825)	(8,474)
Recognized actuarial (gain) or loss	-	-	-	753	-	-	-	1,507
Curtailment charge	252	-	-	-	1,125	-	-	-
Aggregate pension (benefit) expense	$ (2,754)	$ (1,129)	$ 1,929	$ 2,965	$ (1,100)	$ 237	$ 3,858	$ 5,932

	SERP Plan Cost							
	Three months ended June 30,				Six months ended June 30,			
	2006		2005		2006		2005	
	NYSE	SIAC	NYSE	SIAC	NYSE	SIAC	NYSE	SIAC
Cost of benefits earned	$ 334	$ -	$ 515	$ 231	$ 540	$ 188	$ 1,031	$ 461
Interest on benefits earned	718	378	933	401	1,549	757	1,866	803
Net amortizations	123	27	384	201	99	53	767	402
Aggregate SERP expense	$ 1,175	$ 405	$ 1,832	$ 833	$ 2,188	$ 998	$ 3,664	$ 1,666

In addition to providing pension benefits, NYSE and SIAC maintain defined benefit plans to provide certain health care and life insurance benefits for eligible retired employees. During 2005, NYSE and SIAC announced that changes would be made to the post retirement plan, including the underlying plan design and contribution strategy. The following are the plans' amounts recognized during the respective periods (in thousands):

	Post Retirement Plan Cost							
	Three months ended June 30,				Six months ended June 30,			
	2006		2005		2006		2005	
	NYSE	SIAC	NYSE	SIAC	NYSE	SIAC	NYSE	SIAC
Cost of benefits earned	$ 1,194	$ 541	$ 1,137	$ 667	$ 2,382	$ 1,082	$ 2,274	$ 1,334
Interest on benefits earned	1,953	881	1,750	888	4,152	1,762	3,501	1,776
Net amortizations	(67)	329	(61)	390	146	658	(122)	779
Aggregate Post Retirement expense	$ 3,080	$ 1,751	$ 2,826	$ 1,945	$ 6,680	$ 3,502	$ 5,653	$ 3,889

Note 9 - Related Party Transactions

The Depository Trust Company ("DTC") and the National Securities Clearing Corporation ("NSCC") are wholly-owned subsidiaries of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is a holding company that supports DTC, which provides settlement and custody services to banks and broker-dealers, and NSCC, which provides trade clearance, netting and settlement services to banks, broker-dealers, mutual funds, insurance companies and other financial institutions.

On March 28, 2006, NYSE Group sold its shares of DTCC common stock, which represented approximately 28% of DTCC's common stock, for a $23.4 million cash payment. NYSE Group carried this investment at its $2.5 million cost and therefore realized a $20.9 million pre-tax gain that was included in gain on sale of equity investment for the six months ended June 30, 2006 in the condensed consolidated statements of income. The after-tax impact of this gain was included in the cash dividend paid to each former NYSE member in connection with the merger of NYSE and Archipelago. As of June 30, 2006, NYSE Group owns 50% of the outstanding preferred stock of DTCC.

SIAC performs services for AMEX, which is a one-third owner of SIAC.

The following revenues have been derived from (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2006	2005	2006	2005
DTCC	$ 4,764	$ 8,326	$ 10,342	$ 17,193
AMEX	14,126	17,822	30,516	35,865

These revenues are included in data processing in the condensed consolidated statements of income.

Note 10 - Earnings per Share

Historically, the weighted average number of shares was adjusted to reflect the merger with Archipelago giving retroactive effect to the issuance of 84,699 shares of common stock to each former member, corresponding to the maximum number of shares issuable to a member under the stock election provision.

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

	Three months ended June 30,		Six months ended June 30,	
	2006	2005	2006	2005
Net income for basic and diluted earnings per share	$ 61,173	$ 12,986	$ 91,521	$ 39,005
Shares of common and common stock equivalents:				
Weighted average shares used in basic computation	156,422	115,699	141,619	115,699
Dilutive effect of:				
Employee stock options and restricted stock units	1,006	-	1,097	-
Weighted average shares used in diluted computation	157,428	115,699	142,716	115,699
Basic earnings per share	$ 0.39	$ 0.11	$ 0.65	$ 0.34
Diluted earnings per share	$ 0.39	$ 0.11	$ 0.64	$ 0.34

As of June 30, 2006, 1.4 million shares of restricted stock units and options to purchase 1.8 million shares of common stock were outstanding. For the three and six months ended June 30, 2005, there were no options or restricted stock units outstanding.

Note 11 - Litigation and Other Matters

The following supplements and amends our discussion set forth under “Legal Proceedings” in Part I, Item 3 of our annual report on Form 10-K for the year ended December 31, 2005, as updated by Part II, Item 1 of our quarterly report on Form 10-Q for the period ended March 31, 2006. The following should be read in conjunction with these financial statements.

In re NYSE Specialists Securities Litigation

On June 2, 2006, plaintiffs filed in the U.S. Court of Appeals for the 2d Circuit an opening brief in support of their appeal from the decision of the U.S. District Court for the Southern District of New York entering a final judgment in favor of NYSE. NYSE filed its brief in opposition on August 2, 2006.

Merger-Related Litigation

In March 2006, Janet Hyman and Sylvia Lief, each a former NYSE member, filed separate complaints in New York Supreme Court against NYSE and John A. Thain. The complaints sought compensatory damages for alleged breach of fiduciary duty based on a purported duty of defendants to disclose NYSE’s merger discussions with Archipelago prior to the sale of plaintiffs’ NYSE memberships on March 1 and 2, 2005, respectively.

On April 19, 2006, NYSE and Mr. Thain served motions to dismiss the Hyman and Lief complaints. On June 9, 2006, Ms. Hyman and Ms. Lief each served an amended complaint, which added an additional cause of action for breach of fiduciary duty and a new cause of action for negligence. On June 22, 2006, D. Paul Rittmaster, another former NYSE member represented by the same law firm as Ms. Hyman and Ms. Lief, filed a complaint in New York Supreme Court against NYSE and Mr. Thain asserting the same causes of action alleged in the amended complaints of Hyman and Lief. On July 28, 2006, NYSE and Mr. Thain served a motion to dismiss the Hyman and Lief amended complaints and the Rittmaster complaint on the grounds, among others, that defendants had no legal duty to make the disclosures plaintiffs assert they should have made.

Compensation-Related Litigation

On July 26, 2006, the court denied the motion of defendant Kenneth Langone for summary judgment in his favor on the single cause of action asserted against him by the New York Attorney General; Mr. Langone has appealed that denial. On July 17, 2006, NYSE and former NYSE Chairman John S. Reed filed motions for summary judgment dismissing all of Richard Grasso’s counterclaims against them. On July 31, 2006, the New York Attorney General filed a motion for partial summary judgment in its favor on claims asserted against Mr. Grasso, and Mr. Grasso filed motions for summary judgment in his favor with respect to three of the six causes of action asserted against him by the Attorney General. Mr. Grasso also has moved for summary judgment dismissing the one claim asserted by the Attorney General against NYSE. In addition, defendant Carl McCall has moved for summary judgment dismissing the third-party claims asserted against him by Mr. Grasso. On August 8, 2006, the court ruled that the New York Attorney General’s claim against Mr. Grasso for restitution and imposition of a constructive trust is an equitable claim that must be tried to the court rather than to a jury, and that it will commence trial of that claim (which will be tried separately from all other claims asserted in the case) on October 16, 2006. The appellate court has not yet rendered a decision on Mr. Grasso’s appeal of the trial court’s denial of his motion to dismiss four of the six claims against him, including the claim for restitution and imposition of a constructive trust now scheduled for trial in October.

Employment-Related Litigation

On April 20, 2006, Graciela DaSilva, Vjoca Selmanovic and Robin Max Morris filed a complaint in the U.S. District Court for the Southern District of New York against NYSE Group, Building Maintenance Service, LLC (“BMS”), a cleaning service contractor, and five unnamed corporations, seeking compensatory and punitive damages for alleged gender discrimination and retaliation in violation of federal and local laws. Ms. DaSilva currently is employed as a porter by NYSE Group; Mr. Morris previously was employed by NYSE as a

supervisor of porters. Mr. Selmanovic previously was employed as a porter by BMS. On May 24, 2006, NYSE Group filed an answer to the complaint in which it denied allegations of wrongdoing and asserted various defenses.

Other Matters

On or about April 25, 2006, the Independent Broker Action Committee, Inc. (“IBAC”), which describes itself as a not-for-profit corporation whose membership consists of independent NYSE brokers, filed a petition in the U.S. Court of Appeals for the District of Columbia (“DC Circuit”) seeking review of two orders issued by the SEC (Exchange Act Releases No. 34-53539 (March 22, 2006) and 34-53382 (February 27, 2006) (the “Orders”)) insofar as they relate to the creation of the NYSE Hybrid Market^{SM} and NYSE’s proposed method of allocating trading rights. The petition named the SEC as respondent and asked the court to vacate Exchange Act Release No. 34-53539 regarding the NYSE Hybrid Market^{SM} and that portion of Exchange Act Release No. 34-53382 that approved NYSE’s proposed method of allocating trading rights at NYSE through annual trading licenses, and to remand the matter to the SEC for further proceedings. IBAC also asked the SEC to stay the authorization given to NYSE under Exchange Act Release No. 34-53539 to implement subsequent phases of the NYSE Hybrid Market^{SM} , pending the court’s resolution of IBAC’s petition for review.

NYSE submitted an opposition to IBAC’s stay request before the SEC and was granted leave to intervene to oppose IBAC’s petition before the DC Circuit. Following joint requests to the SEC and the DC Circuit, the SEC has deferred ruling on IBAC’s stay request and the DC Circuit has deferred briefing on the petition itself, to allow IBAC to determine whether it wishes to continue to pursue the petition in light of subsequent developments with regard to the NYSE Hybrid Market^{SM}.

NYSE Group is defending a number of other actions and investigations, the ultimate outcome of which cannot reasonably be determined at this time. In the opinion of management and legal counsel, the aggregate of all possible losses from all such other actions and investigations should not have a material adverse effect on the consolidated financial condition or results of operations of NYSE Group.

Note 12 - Comprehensive Income

The following outlines the components of other comprehensive income (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2006	**2005**	**2006**	**2005**
Net income	$ 61,173	$ 12,986	$ 91,521	$ 39,005
Unrealized gains (losses) on available-for-sale securities	(1,583)	2,067	(93)	(3,623)
Total comprehensive income	$ 59,590	$ 15,053	$ 91,428	$ 35,382

Note 13 - Deferred Revenue

Components of deferred revenue were as follows (in thousands):

	June 30, 2006	December 31, 2005
Listing fees - original	$ 410,454	$ 414,887
Listing fees - annual	132,252	-

Registered representative and maintenance fees		9,079		10,180
License fees		10,384		100
Other		6,892		9,343
Total deferred revenue	$	569,061	$	434,510
Less: current portion	$	243,899	$	105,313
Long-term portion	$	325,162	$	329,197

The long-term portion of the deferred revenue balances represented deferred original listing fees, which is a component of the Market segment. The current portion of the deferred revenue balances will be realized within the following reportable segments (in thousands):

	June 30, 2006	December 31, 2005
Market	$ 227,921	$ 85,960
Regulation	11,168	13,839
SIAC	4,810	5,514
Total	$ 243,899	$ 105,313

Note 14 - Net Capital Requirements

Certain wholly-owned subsidiaries of NYSE Group, Archipelago Securities, LLC (“ARCAS”) and Archipelago Trading Services, Inc. (“ATSI”), are registered broker-dealers and are subject to net capital requirements under SEC Rule 15c3-1. ATSI computes its net capital using the basic method. Under this method, ATSI 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. The method requires that minimum net capital not to be less than the greater of $250,000 or 2% of the aggregate debit items arising from customer transactions.

As of June 30, 2006, 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:	
ARCAS	$ 15,966
ATSI	7,727
Net capital in excess of required net capital:	
ARCAS	$ 15,716
ATSI	7,676
Ratio of aggregate indebtedness to net capital:	
ARCAS	N/A
ATSI	0.10 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.

NYSE Group’s international broker-dealer subsidiaries are subject to capital adequacy requirements promulgated by authorities of the countries in which they operate. As of June 30, 2006, these subsidiaries had met their capital adequacy requirements.

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

You should read the following discussions and analysis of the financial condition and operations of NYSE Group together with the condensed consolidated financial statements and related notes as well as the forward looking statements included elsewhere in this report.

Certain prior period amounts presented in the discussion and analysis have been reclassified to conform to the current presentation.

Overview

NYSE Group was organized on May 2, 2005. As of December 31, 2005 and up until March 7, 2006, NYSE Group had no assets (other than $200 it received on December 29, 2005 from the sale of one share of its common stock to each of NYSE and Archipelago) and had not conducted any material activities other than those incident to its formation. However, on March 7, 2006, upon the consummation of the merger of the NYSE and Archipelago, NYSE Group became the parent company of the New York Stock Exchange LLC (which is the successor to New York Stock Exchange, Inc.) and Archipelago.

We are a holding company that, through our subsidiaries, operates two securities exchanges: the NYSE and NYSE Arca. We are a leading provider of securities listing, trading and market data products and services. We were formed in connection with the merger of the NYSE and Archipelago, which closed on March 7, 2006.

Business Development

NYSE/Archipelago Merger

On April 20, 2005, the NYSE entered into a definitive merger agreement with Archipelago, pursuant to which the NYSE and Archipelago agreed to combine their businesses and became wholly owned subsidiaries of NYSE Group, a newly-created, for profit and publicly-traded holding company. The merger closed on March 7, 2006. As of that date, the NYSE and Archipelago became wholly owned subsidiaries of NYSE Group. NYSE Group common stock is listed on the NYSE and is traded under the symbol “NYX”.

In the merger, each NYSE member received in exchange for its NYSE membership $300,000 in cash and 80,177 shares of NYSE Group common stock. In addition, a cash dividend of $70,571 was declared and paid to each holder of record of a NYSE membership as of March 6, 2006. In the merger, the NYSE members had the opportunity to make either a cash election to increase the cash portion (and decrease the stock portion) of their merger consideration, or a stock election to increase the stock portion (and decrease the cash portion) of their merger consideration. These elections were subject to proration. The aggregate number of shares of NYSE Group common stock issued to all of the NYSE members in the merger, together with the aggregate number of shares reserved for issuance to NYSE employees, equaled approximately 70% of the NYSE Group common stock issued and outstanding at the closing of the merger, or approximately 109.5 million shares, on a diluted basis.

In the merger: (i) each share of the issued and outstanding shares of Archipelago's common stock was converted automatically into the right to receive one share of NYSE Group common stock; (ii) all outstanding stock options of Archipelago, whether vested or unvested, converted into options to purchase an equivalent number of shares of NYSE Group common stock; and (iii) all outstanding restricted stock units of Archipelago converted into an equal number of restricted stock units of NYSE Group common stock. The

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aggregate number of shares (including shares underlying stock options and restricted stock units) received by Archipelago stockholders, equaled approximately 30% of the issued and outstanding shares of NYSE Group common stock at the closing of the merger, or approximately 46.0 million shares.

As a result of the merger, we expect to achieve operational synergies resulting from the consolidation of capabilities and elimination of redundancies, and to achieve greater efficiencies from increased scale, market integration, more automation and for-profit structure. We have identified cost saving opportunities in a number of areas, including hiring freezes and headcount reductions, the elimination of overlaps in technology, marketing, occupancy, and general and administrative costs, and increased efficiencies in our general business processes.

Selling Shareholder Offering

On May 10, 2006, NYSE Group completed a selling shareholder offering of 28.75 million shares of common stock at $61.50 per share, for which NYSE Group received no proceeds.

Combination with Euronext N.V.

On May 22, 2006, NYSE Group proposed a business combination with Euronext which would create NYSE Euronext, a global marketplace with an expected combined market capitalization of approximately $21 billion.

Euronext is a cross-border exchange providing international services for regulated cash markets and derivative markets in Belgium, France, the United Kingdom, the Netherlands and Portugal.

Both parties signed a definitive combination agreement on June 1, 2006. The combination is expected to close during the first quarter of 2007 and is subject to regulatory approval and the approval of NYSE Group and Euronext shareholders. For a discussion of certain risks associated with the combination, see Part II, Item 1A “Risk Factors” in this Form 10-Q.

In the combination, NYSE Group and Euronext will combine their businesses under NYSE Euronext, a Delaware corporation formed for the purpose of this transaction. Euronext’s business will be brought under NYSE Euronext through an exchange offer and a post-closing reorganization, and NYSE Group’s business will be brought under NYSE Euronext through a merger.

In the exchange offer, NYSE Euronext will offer to acquire each outstanding Euronext ordinary share in exchange for €21.32 in cash and 0.98 of a share of NYSE Euronext common stock. The exchange offer also will have a mix and match election to permit Euronext shareholders to elect all cash or all stock in exchange for their Euronext ordinary shares, subject to proration to ensure that the total amount of cash paid, and the total number of shares of NYSE Euronext common stock issued, in the exchange offer to the Euronext shareholders, as a whole, are equal to the total amount of cash and number of shares that would have been paid and issued if all Euronext shareholders received the standard offer consideration.

Immediately after the successful completion of the exchange offer, a wholly owned subsidiary of NYSE Euronext will merge with NYSE Group, and, as a result, NYSE Group will become a wholly owned subsidiary of NYSE Euronext, and each share of NYSE Group common stock will be converted into the right to receive one share of NYSE Euronext common stock.

As soon as possible after the completion of these transactions, NYSE Euronext intends to effectuate a corporate reorganization of Euronext and its subsidiaries for the purpose of providing Euronext shareholders who did not exchange their Euronext ordinary shares in the exchange offer with the same consideration that such shareholders would have received had they tendered their Euronext ordinary shares in the exchange offer.

Segment Reporting

Subsequent to the merger with Archipelago, NYSE Group operates under three reportable segments: Market, SIAC Services and Regulation. NYSE Group's segments are managed and operated as three business units and organized based on services provided to customers.

Market represents primarily the fees earned from (i) obtaining new listings and servicing existing listings on the NYSE and NYSE Arca, (ii) providing access to trade execution, (iii) distributing market information to data subscribers, and (iv) issuing trading licenses (previously membership fees).

SIAC Services provides communication and data processing operations and systems development functions to the NYSE and third party customers.

Regulation provides regulatory services (including member firm regulation, market surveillance, enforcement, listed company compliance, and arbitration), performed by NYSE Regulation, to the NYSE and NYSE Arca. Regulatory fees are paid by member organizations and are primarily assessed based upon their Gross FOCUS revenues. In addition, Regulation collects regulatory fines that are levied against members and member organizations.

Operating Data

NYSE Group revenues are affected by many factors, including the number of companies listed on NYSE and NYSE Arca (both new and continuing), corporate actions by these companies (for example stock splits and mergers), trading activity, demand for data processing, and demand for market information. The following table presents selected operating data for the periods presented. A description of the manner in which the NYSE and NYSE Arca calculate their trading volumes and other operating measures is set forth below.

	Three months ended June 30, 2006	2005	Six months ended June 30, 2006	2005
NYSE Company listings (1)**:**				
NYSE listed issuers (2)	2,697	2,637	2,697	2,637
Number of new issuer listings (3)	24	36	53	73
NYSE Listed Issues (4):				
NYSE Group Matched Volume (5)	121,582	102,969	235,235	203,958
NYSE Group Handled Volume (6)	124,024	104,500	239,713	207,007
Total NYSE Listed Consolidated Volume	162,452	127,745	313,292	252,938
NYSE Group Share of Total Consolidated Volume:				
Matched Volume (5)	74.8%	80.6%	75.1%	80.6%
Handled Volume (6)	76.3%	81.8%	76.5%	81.8%
NYSE Arca and Amex Listed Issues:				
NYSE Group Matched Volume (5)	7,841	4,655	13,856	8,340
NYSE Group Handled Volume (6)	9,067	5,325	15,983	9,563
Total NYSE Arca and Amex Listed Consolidated Volume	26,363	16,871	47,216	32,264
NYSE Group Share of Total Consolidated Volume:				
Matched Volume (5)	29.7%	27.6%	29.3%	25.8%
Handled Volume (6)	34.4%	31.6%	33.9%	29.6%
Nasdaq Listed Issues:				
NYSE Group Matched Volume (5)	27,841	20,734	52,077	43,457
NYSE Group Handled Volume (6)	33,971	26,010	64,043	54,660
Total Nasdaq Listed Consolidated Volume	134,946	112,756	265,639	234,264
NYSE Group Share of Total Consolidated Volume:				
Matched Volume (5)	20.6%	18.4%	19.6%	18.6%
Handled Volume (6)	25.2%	23.1%	24.1%	23.3%
Exchange-Traded Funds (4),(7):				
NYSE Group Matched Volume (5)	11,078	5,937	19,631	10,766
NYSE Group Handled Volume (6)	12,253	6,618	21,823	12,008
Total ETF Consolidated Volume	28,590	18,430	50,960	34,836
NYSE Group Share of Total Consolidated Volume:				
Matched Volume (5)	38.7%	32.2%	38.5%	30.9%
Handled Volume (6)	42.9%	35.9%	42.8%	34.5%
Equity Options (8):				
NYSE Group Options Contracts	44.2	29.7	92.7	66.3
Total Consolidated Options Contracts	470.0	315.1	916.5	633.7
NYSE Group Share of Total	9.4%	9.4%	10.1%	10.5%
Market Information (9) **:**				
Tape A share of trades (%)	86.1%	91.8%	86.6%	91.7%
Tape B share of trades (%)	33.7%	49.3%	38.0%	48.3%
Tape C share of trades and shares (%)	24.2%	21.1%	23.1%	21.1%
Professional subscribers	417,329	423,447	417,329	423,447

Regulatory Fees:				
Gross FOCUS revenues ($ billions) (10)	66.1	47.0	127.3	84.8
Data Processing Fees:				
% SIAC revenues from customers other than NYSE	43.5%	40.8%	42.1%	41.3%

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(1) Number does not include issuers listed on NYSE Arca. There were 11 operating companies exclusively listed on NYSE Arca as of June 30, 2006.

(2) Number of listed operating companies, closed-end funds and ETFs as of period end.

(3) Includes initial public offerings, quotations and transfers from other markets of common equity securities.

(4) Includes NYSE Crossing Sessions 1, 2, 3 and 4.

(5) Represents the total number of shares of equity securities and ETFs executed on NYSE Group's exchanges.

(6) Represents the total number of shares of equity securities and ETFs internally matched on NYSE Group's exchanges or routed to and executed at an external market center. NYSE Arca routing includes odd-lots.

(7) Data included in previously identified categories.

(8) Includes trading in U.S. equity options contracts, not equity-index options.

(9) Represents the NYSE Group share of qualifying trades for Tapes A and B reported by NYSE Group to the consolidated tape, as compared to the total number of qualifying trades for Tapes A and B reported to the consolidated tape by all other participating market centers. NYSE Group share of Tape C represents the average of: (i) the share of qualifying trades for Tape C reported by NYSE Group to the consolidated tape, as compared to the total number of qualifying trades for Tape C reported to the consolidated tape by all other participating market centers; and (ii) the share of qualifying share volume for Tape C reported by NYSE Group to the consolidated tape, as compared to the total qualifying share volume for Tape C reported by all other participating market centers. The consolidated tape refers to the collection of market data that multiple markets make available on a consolidated basis.

(10) Gross FOCUS revenues represent revenues generated by member broker-dealers as reported on their "FOCUS" report (a report that is required to be filed with the SEC). A member broker-dealer's regulatory fee is based on the revenues reported. The NYSE records revenue on a six-month lag; the data is provided on this basis.

Sources of Revenues

Activity Assessment

NYSE Group pays SEC fees pursuant to Section 31 of the Exchange Act. These Section 31 fees are designed to recover the costs to the government of supervision and regulation of securities markets and securities professionals. NYSE Group, in turn, collects activity assessment fees from organizations executing trades on the NYSE and NYSE Arca, and recognizes these amounts when invoiced. Fees received are included in cash at the time of receipt and, as required by law, the amount due to the SEC is remitted semiannually and recorded as an accrued liability until paid. The activity assessment fees are designed so that they are equal to the Section 31 fees. As a result, neither the size of Section 31 fees nor the size of activity assessment fees has an impact on NYSE Group’s net income.

Transaction

On the NYSE, trading fees are paid by member organizations based on their trading activity. Fees are assessed on a per share basis for trading in equity securities. The fees are applicable to all transactions that take place on the NYSE, and the fee amounts vary, based on the size and type of trade that is consummated. There is no fee for small electronic trades. All members and member organizations pay trading fees except “$2 brokers” (who, by definition, effect transactions only for other member organizations) and specialists. There are two caps that apply to the trading fees (other than fees for trading ETFs), and member organizations pay the lesser of these two fee caps on a monthly basis. The first cap is a maximum fixed dollar amount of $600,000 per month. The second is a variable cap that is equal to 2% of the net commissions that a member organization earns on the trades it executes on the trading floor. As a result of these caps, fluctuations in trading volumes, regardless of direction or magnitude, do not have a significant impact on our trading fees.

On NYSE Arca, trading fees are charged to customers for trade execution of equity securities and equity options. NYSE Arca earns transaction fees for (i) customer orders of equity securities matched internally on NYSE Arca, as well as for customer orders routed out, and (ii) customer orders of equity options traded or cleared through NYSE Arca.

For equity securities, NYSE Arca charges a per share fee (denominated in tenths of a cent per share) to each customer that executes against a buy order or sell order posted internally. NYSE Arca refers to these customers when they purchase or sell securities as “liquidity takers,” as they removed liquidity from NYSE Arca. 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. NYSE Arca also charges a per share fee (denominated in tenths of a cent per share) to customers whose orders of equity securities are routed out to an external market center displaying the best buy order or sell order in the market for a particular security.

On June 30, 2006, NYSE Group announced transaction-pricing changes for NYSE listed equities and NYSE Arca options, effective August 1, 2006. The new pricing includes, but is not limited to, the following changes:

- Transaction fees on NYSE-listed equities will be based on a fixed rate of 0.00025 per share rather than the current variable fee schedule.

- The monthly cap, referenced above on trading NYSE-listed cash equities, will be increased to $750,000 from $600,000.

- The cap equal to 2% of net commissions for trading on the NYSE will be eliminated.

- Free system orders on all NYSE-listed equities transactions will also be eliminated (fees for ETF system orders under 5,100 shares will continue to be waived).

- Specialists will not incur transaction fees for trading ETFs.

The pricing structures of the NYSE and NYSE Arca continue to be examined as part of a broad strategic review of NYSE Group’s opportunities for revenue growth and efficiency improvement and to better capture value for the services rendered by aligning more closely transaction revenue with executed volume, product expansion and new product development. Transaction fees that NYSE Group earns in the future could also depend on the outcome of certain regulations and rule changes, such as Regulation NMS.

Listing

Companies pay listing fees when they initially list on the NYSE or NYSE Arca, and annually thereafter. Listing fees consist of two components: original listing fees and other corporate action related fees. Original listing fees, subject to a minimum and maximum amount, are based on the number of shares that the company initially lists with the NYSE or NYSE Arca. Other corporate action related fees are paid by listed companies in connection with corporate actions involving the issuance of new shares to be listed on the NYSE or NYSE

Arca, such as stock splits, rights issues, sales of additional securities, and mergers and acquisitions, which are subject to a minimum and maximum fee. Annual fees are charged based on the number of outstanding shares of the listed company at the end of the previous year. These fees are recognized on a pro-rata basis over the calendar year. Original listing fees are recognized on a straight-line basis over estimated service periods of 10 years for the NYSE and 5 years for NYSE Arca. Unamortized balances are recorded as deferred revenue on the consolidated statements of financial condition.

Data Processing

SIAC charges data processing fees to customers other than NYSE Group (fees charged to NYSE Group are eliminated in consolidation) for communication services, data processing operations and systems development functions. SIAC operates on a cost recovery model driven by its customers' demands. Under this model, any increase or decrease in SIAC's operating expenses results in a corresponding change in its revenues. In addition, SIAC earns revenues through its subsidiary, Sector, which offers an array of communications and data processing services, primarily to the broker-dealer community.

Market Data

NYSE Group collects market information fees principally for consortium-based data products and, to a lesser extent, for NYSE proprietary data products. Consortium-based data fees are determined by securities industry plans. Consortium-based data revenues that coordinated market data distribution generates (net of joint processing and administration costs) are distributed to participating markets on the basis of their respective number of trades. 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 certain securities that are listed on Nasdaq, AMEX, and other regional exchanges, including ETFs. These revenues are influenced by demand for the data by professional and non-professional subscribers, as well as the NYSE Group's share of trades. In addition, NYSE Group receives fees for television broadcasts, vendor access and other usage fees related to per quote or per trade data. NYSE Group proprietary products make available market data covering activity that takes place solely on the NYSE and NYSE Arca's markets, independent of activity on other markets.

Regulatory

Regulatory fees are principally comprised of member firm regulation fees and market surveillance fees collected by NYSE Group. Member firm regulation fees are based on member organizations' gross revenues, as reported in their FOCUS filing with the NYSE, and assessed on a six-month lag. Market surveillance fees are charged to specialists and floor brokers to recover some of the costs of overseeing trading on the NYSE floor. Other regulatory fees include revenue from registration of branch offices, registered individuals and specialists, as well as fees for certain licensing examinations necessary to operate in the securities industry.

Licensing, facility and other

On January 4, 2006, the NYSE completed a modified Dutch auction, as a result of which it sold 1,274 trading licenses at an annualized price of $49,290 per license, subject to SEC approval of applicable NYSE rules, which approval was obtained on February 27, 2006. The NYSE has made available a maximum of 1,366 trading licenses, and any unsold trading licenses can be purchased at a 10% premium to the established auction price, on a pro rata basis, during the course of 2006. Currently, we anticipate approximately $51 million in revenue

from trading licenses for the period from March 8 to December 31, 2006, which is recognized on a straight-line basis over this period. There could be significant uncertainty regarding the number and price of trading licenses that will be sold in a given year, which could result in fluctuation in the amount of trading license fees we receive each year.

Facility and other fees primarily comprise fees received for services provided to specialists, brokers and clerks physically located on the NYSE floor that enable them to engage in the purchase and sale of securities on the trading floor. These services include booth and post space, communication, trading analysis and technology.

Components of Expenses

Section 31 Fees

See "—Activity Assessment Fees" above.

Merger Expenses and Related Exit Costs

Merger expenses and related exit costs consist of severance costs, as well as legal, printing and accounting fees incurred in connection with the May 2006 selling shareholder offering of our common stock, and other professional fees directly attributable to the merger with Archipelago.

Compensation

NYSE Group's compensation expense includes employee salaries, incentive compensation (including stock-based compensation) and related benefits expense, including pension, medical, postretirement medical, and SERP charges. Part-time help, primarily related to security personnel at the NYSE, is also recorded in this category.

Liquidity Payments

To enhance the liquidity of its system, NYSE Arca pays 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 NYSE Arca, when the quote is executed against, or "hit," by liquidity takers purchasing or selling securities internally on NYSE Arca.

Routing and Clearing

NYSE Arca incurs routing charges when NYSE Arca 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 NYSE Arca. In that case, NYSE Arca routes the customer's order to the external market center that displays the best buy order or sell order. The external market center charges NYSE Arca a fee per share (denominated in tenths of a cent per share) for routing to its system.

In addition, NYSE Arca incurs clearance, brokerage and related transaction expenses, which primarily include costs incurred in self-clearing activities, service fees paid per trade to exchanges for trade execution, and costs incurred due to erroneous trade execution.

Systems and Communications

NYSE Group's systems and communications expense includes (i) certain costs for development and maintenance of trading, regulatory and administrative systems, (ii) investments in system capacity, reliability and security and (iii) network connection with its customers and its data centers, as well as connectivity to various other market centers.

Professional Services

NYSE Group's professional services expense includes consulting charges related to various technological and operational initiatives, as well as legal and audit fees. Our historical spending related to professional services consists principally of legal and consulting expenses. While we are focused on reducing costs, including professional services costs, there is no guarantee that our professional services expenses will decline in the future. Under certain circumstances, particularly as we pursue our business strategy, we may be required to incur significant professional services costs, such as legal expenses.

Depreciation and Amortization

This item includes costs from depreciating fixed assets and amortizing intangible assets over their estimated useful lives. It also included depreciation of computer hardware and capitalized software.

Occupancy

Occupancy includes costs related to NYSE Group's leased premises, as well as real estate taxes and maintenance of owned premises.

Marketing and Other

Marketing and other expenses includes advertising, printing and promotion expenses, insurance premiums, travel and entertainment expenses as well as other administrative expenses.

Regulatory Fine Income

Regulatory fine income is generated from fines levied by NYSE Regulation, which regulates and monitors the activities on our securities exchanges and enforces member organization compliance with applicable law and the rules of the exchanges. The frequency with which fines may be levied and their amount will vary based upon the actions of participants on the NYSE and NYSE Arca. Regulatory fines are used for regulatory purposes.

Results of Operations

We have treated the merger as a purchase business combination for accounting purposes, with the NYSE designated as the business and accounting acquirer. As a result, the historical results of the NYSE are the historical results of NYSE Group. The results of operations of NYSE Arca have been included in the results of operations of NYSE Group since March 8, 2006.

Three Months Ended June 30, 2006 Versus Three Months Ended June 30, 2005

The following table sets forth NYSE Group's consolidated statements of income for the three months ended June 30, 2006 and 2005, as well as the percentage increase or decrease for each consolidated statement of income item for the three months ended June 30, 2006, as compared to such item for the three months ended June 30, 2005:

Dollars (in Millions)	Three months ended June 30, 2006	2005	Percent Increase (Decrease)
Revenues			
Activity assessment	$ 189.8	$ 141.8	33.9%
Transaction	198.0	37.8	423.8%
Listing	88.8	85.5	3.9%
Market data	60.4	46.3	30.5%
Data processing	41.9	47.7	(12.3)%
Regulatory	44.7	32.6	37.2%
Licensing, facility and other	36.0	13.1	174.6%
Total revenues	659.6	404.8	62.9%
Section 31 fees	(189.8)	(141.8)	33.9%
Merger expenses and related exit costs	(9.7)	-	100.0%
Compensation	(138.4)	(128.3)	7.8%
Liquidity payments	(74.8)	-	100.0%
Routing and clearing	(23.4)	-	100.0%
Systems and communications	(30.7)	(32.0)	(4.2)%
Professional services	(29.4)	(34.2)	(13.9)%
Depreciation and amortization	(36.1)	(26.4)	36.4%
Occupancy	(21.5)	(17.1)	25.6%
Marketing and other	(28.0)	(17.5)	59.7%
Regulatory fine income	6.2	1.2	390.7%
Operating income	84.0	8.7	865.2%
Investment and other income, net	17.0	12.9	31.7%
Income before taxes and minority interest	101.0	21.6	367.2%
Provision for income taxes	(38.5)	(7.4)	419.8%
Minority interest in income of consolidated subsidiary	(1.3)	(1.2)	8.5%
Net income	$ 61.2	$ 13.0	371.1%

Consolidated Results

For the three months ended June 30, 2006, the results of operations of NYSE Group included the results of the NYSE, SIAC and the results of operations of NYSE Arca following the March 7, 2006 merger with Archipelago. For the same period a year ago, the results of operations of NYSE Group only included the results of the NYSE and SIAC.

For the three months ended June 30, 2006, NYSE Group reported revenues (excluding activity assessment fees), operating income and net income of $469.8 million, $84.0 million and $61.2 million, respectively. This compares to revenues (excluding activity assessment fees), operating income and net income of $263.0 million, $8.7 million and

$13.0 million, respectively, for the three months ended June 30, 2005.

The $206.8 million increase in revenues (excluding activity assessment fees), $75.3 million increase in operating income and $48.2 million increase in net income for the period reflect the following principal factors:

Increased revenues - NYSE Arca's results of operations were consolidated for the three months ended June 30, 2006 and contributed revenues of $180.4 million (excluding activity assessment fees), which was the primary driver of the period-over-period increase.

Increased operating income - The period over period increase in operating income of $75.3 million was the result of NYSE Arca's contribution to operating income of $36.0 million as well as other revenue growth and overall operating efficiencies as we continue to meet our integration goals.

Improved net income - Period over period, net income increased $48.2 million including $22.5 million related to NYSE Arca, revenue growth and overall operating efficiencies.

Segment Results

Subsequent to the merger with Archipelago, NYSE Group operates under three reportable segments: Market, SIAC Services and Regulation. NYSE Group's segments are managed and operated as three business units and organized based on services provided to customers.

Market represents primarily the fees earned from (i) obtaining new listings and servicing existing listings on the NYSE and NYSE Arca, (ii) providing access to trade execution, (iii) distributing market information to data subscribers~~,~~ and (iv) issuing trading licenses (previously membership fees).

SIAC Services provides communication and data processing operations and systems development functions to the NYSE and third party customers.

Regulation provides regulatory services (including member firm regulation, market surveillance, enforcement, listed company compliance, and arbitration), performed by NYSE Regulation, to NYSE and NYSE Arca. Regulatory fees are paid by member organizations and are primarily assessed based upon their Gross FOCUS revenues. In addition, Regulation collects regulatory fines that are levied against members and member organizations.

Market Segment Results - Revenues

	Three months ended June 30,		
Dollars (in Millions)	**2006**	**2005**	**Percent Increase (Decrease)**
Activity assessment	$ 189.8	$ 141.8	33.9%
Transaction	198.0	37.8	423.8%
Listing	88.8	85.5	3.9%
Market data	60.4	46.3	30.5%
Market services provided to Regulation	29.7	31.1	(4.4)%
Licensing, facility and other	36.0	13.1	174.6%
Total revenues	$ 602.7	$ 355.6	69.5%