FIRST BANCSHARES INC /MS/
Form DEF 14A
April 20, 2010

SCHEDULE 14A
(RULE 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION
PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE
SECURITIES EXCHANGE ACT OF 1934

Filed by the Registrant [X]

Filed by a Party other than the Registrant [ ]

Check the appropriate box:

[ ] Preliminary Proxy Statement
[ ] Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
[X] Definitive Proxy Statement
[ ] Definitive Additional Materials
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THE FIRST BANCSHARES, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

[X] No fee required.

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(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

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0-11 (Set forth the amount on which the filing fee is calculated and state how it

(4) Proposed maximum aggregate value of transaction:

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filing for which the offsetting fee was paid previously. Identify the previous filing by registra
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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

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The First Bancshares, Inc.
Notice of Annual Meeting of Shareholders
to be held on May 27, 2010

Dear Fellow Shareholder:

We cordially invite you to attend the 2010 Annual Meeting of Shareholders of The First Bancshares, Inc., the holding company for The First, A National Banking Association. At the meeting, we will report on our performance in 2009 and answer your questions. We are excited about our achievements in 2009 and our plans for the future. We look forward to discussing these with you. We hope that you can attend the meeting and look forward to seeing you there.

This letter serves as your official notice that we will hold the meeting on Thursday, May 27, 2010, at 5:00 p.m. at our main office located at 6480 U.S. Highway 98 West, Hattiesburg, Mississippi 39402 for the following purposes:

1. To elect four (4) members to the Board of Directors
2. To vote on approval of the appointment of T.E. Lott & Company as the Independent Public Accountants for the Company
3. To vote on advisory (non-binding) proposal:
   Resolved, that the shareholders approve its executive compensation as described in the section captioned "Compensation Discussion and Analysis" in the 2010 Proxy Statement, including the compensation tables and any related material."
4. To transact any other business that may properly come before the meeting or any adjournment of the meeting

Management currently knows of no other business to be presented.

Shareholders owning our common stock at the close of business on April 8, 2010, are entitled to attend and vote at the meeting. A complete list of these shareholders will be available at the company s offices prior to the meeting.

IMPORTANT NOTICE REGARDING INTERNET AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING OF SHAREHOLDERS TO BE HELD MAY 27, 2010

The Proxy Statement for the annual meeting and Annual Report to Stockholders for the year ended December 31, 2009, are available at http://www.cfpproxy.com/3944

Please use this opportunity to take part in the affairs of your company by voting on the business to come before this meeting. Even if you plan to attend the meeting, we encourage you to complete and return the enclosed proxy to us as promptly as possible.

By Order of the Board of Directors,

David E. Johnson
Chairman of the Board

Dated and Mailed on or about April 20, 2010
Hattiesburg, Mississippi

The First Bancshares, Inc.

6480 U.S. Highway 98 West
Hattiesburg, Mississippi 39402

Proxy Statement for Annual Meeting of Shareholders to be Held on May 27, 2010

INTRODUCTION

Date, Time, and Place of Meeting

The Annual Meeting of Shareholders of The First Bancshares, Inc. (the Company) will be held at the main office of the Company located at 6480 U.S. Highway 98 West, Hattiesburg, Mississippi, on Thursday, May 27, 2010, at 5:00 p.m., local time, or any adjournment(s) thereof (the Meeting), for the purpose of considering and voting upon the matters set out in the foregoing Notice of Annual Meeting of Shareholders. This Proxy Statement is furnished to the shareholders of the Company in connection with the solicitation by the Board of Directors of proxies to be voted at the Meeting.

The mailing address of the principal executive office of the Company is Post Office Box 15549, Hattiesburg, Mississippi, 39404-5549.

The approximate date on which this Proxy Statement and form of proxy are first being sent or given to shareholders is April 20, 2010.

Record Date; Voting Rights; Vote Required

The record date for determining holders of outstanding stock of the Company entitled to notice of and to vote at the Meeting is April 8, 2010 (the Record Date). Only holders of the Company s common stock of record on the books of the Company at the close of business on the Record Date are entitled to notice of and to vote at the Meeting or at any adjournment or postponement thereof. As of the Record Date, there were 3,019,869 shares of the Company s common stock issued and outstanding, each of which is entitled to one vote on all matters other than the election of Directors. In the election of Directors, each shareholder has cumulative voting rights, so that a shareholder may vote the number of shares owned by him for as many persons as there are Directors to be elected, or he may multiply the number of shares by the number of Directors to be elected and allocate the resulting votes to one or any number of candidates. For example, if the number of Directors to be elected is four (4), a shareholder owning ten (10) shares may cast ten (10) votes for each of four (4) nominees, or cast forty (40) votes for any one (1) nominee or allocate the forty (40) votes among several nominees.

Any other matters that properly come before the Meeting will be decided by a majority of votes cast, unless a different vote is required by law, the Articles of Incorporation, or the Bylaws. Abstentions and broker non-votes are counted only for purposes of determining whether a quorum is present at the Meeting.

Proxies

Shares of common stock represented by properly executed proxies, unless previously revoked, will be voted at the Meeting in accordance with the directions therein. If no direction is specified, such shares will be voted FOR each nominee listed below under Election of Directors and in the discretion of the person named in the proxy with respect to any other business that may come before the Meeting. We are not aware of any other matter to be considered at the Annual Meeting other than those listed in the Notice of Annual Meeting of Shareholders.

A proxy may be revoked by a shareholder at any time prior to the exercise thereof by filing with the Secretary of the Company a written revocation or a duly executed proxy bearing a later date. A proxy shall be suspended if the shareholder is present and elects to vote in person.

MANAGEMENT PROPOSALS

PROPOSAL 1 – ELECTION OF DIRECTORS

Membership on the Board of Directors

The Board of Directors is divided into three classes with staggered terms, so that the terms of only approximately one-third of the Board members expire at each annual meeting. The current terms of the Class III directors will expire at the Meeting. The terms of the Class I directors will expire at the 2011 Annual Shareholders Meeting. The terms of the Class II directors will expire at the 2012 Annual Shareholders Meeting. Our directors and their classes are:

Class I	Class II	Class
Gregory H. Mitchell (I)	David E. Johnson	David W. Bomb
Ted E. Parker (I)	Michael W. Chancellor (I)	E. Ricky G
Dennis L. Pierce	Andrew D. Stetelman (I)	Fred A. Mc
J. Douglas Seidenburg (I)	Charles R. Lightsey (I)	M. Ray (Hopp
	Ralph T. Simmons (I)*	

(I) indicates independent Director under NASDAQ director independence standards.

*The board of Directors, management and associates of the Company would like to recognize Ralph T. Simmons for his years of dedicated service. Mr. Simmons, elected to the board in 1998, retired effective January 1, 2010.

Nominees for Class III Director

At the Meeting, shareholders will elect four (4) nominees as Class III directors to serve a three-year term, expiring at the 2013 Annual Meeting of Shareholders, or until their successors are elected and qualified. The nominees for Class III directors are listed below. Each nominee currently serves as a Class III director.

Class III
David W. Bomboy, M.D. (I)
E. Ricky Gibson (I)
Fred A. McMurry (I)
M. Ray (Hoppy) Cole, Jr.

Set forth below is certain information about the nominees:

Background: **David W. Bomboy, M.D.**, 63, is a lifelong resident of Hattiesburg, Mississippi. He graduated with honors in Pre-Medicine from the University of Mississippi in 1968 and earned an M.D. degree from the University of Mississippi Medical Center in 1971. Dr. Bomboy completed his orthopedic surgical training at the University of Mississippi in 1976. He is a board-certified orthopedic surgeon and has practiced orthopedics in southern Mississippi for 33 years. Dr.

Bomboy is a member of the Mississippi State Medical Association, the American Medical Association, and served as past president of the Mississippi Orthopedic Society. He is the past president of the Methodist Hospital Medical Staff. Dr. Bomboy has been a director of the Company since 1995 and is also a director of the bank.

Experience/Qualifications/Skills: Dr. Bomboy has served on the board of the Company since its inception in 1995. He is the sole physician on our board which enables him to bring a different perspective to the challenges the board faces. His background, experience, and knowledge of the medical and business communities are important in the board s oversight of management. His past involvement in real estate development adds another perspective to board discussions.

Background: **E. Ricky Gibson**, 52, has been president and owner of N&H Electronics, Inc., a wholesale electronics distributor, since 1988 and of Mid South Electronics, a wholesale consumer electronics distributor, since 1993. He is a member of Parkway Heights United Methodist Church. Mr. Gibson has been a director of the Company since 1995 and is also a director of the bank.

Experience/Qualifications/Skills: Mr. Gibson has served on the board of the Company since its inception in 1995. As the owner of wholesale electronics distributorships, Mr. Gibson is knowledgeable about all aspects of running a successful business and he understands the challenges business owners face. Also, he has developed an understanding of our bank and the banking industry in general, particularly in the area of audit and executive compensation. He serves as chairman of the bank audit committee and the compensation committee.

Background: **Fred A. McMurry**, 45, is a lifetime resident of the Oak Grove area. He is currently President and General Manager of Havard Pest Control, Inc. with over 21 years of experience in this family-owned business. He also serves on the Advisory Board of the Mississippi Pest Control Association and the board of the Bureau of Plant Industry of the Mississippi Department of Agriculture and Commerce. In addition, he is President of West Oaks, LLC and Vice President of Oak Grove Land Company, Inc. Mr. McMurry has been a director of the Company since 1995 and is also a director of the bank.

Experience/Qualifications/Skills: Mr. McMurry has been a director of the Company since its inception in 1995. He contributes his extensive knowledge of the Lamar County area of Mississippi, which is one of our primary markets. His many years of experience in family-owned businesses give him a broad understanding of the needs of our customers as well as insight into the economic trends in the area. He also has been involved in real estate development which adds value to loan discussions.

Background: **M. Ray (Hoppy) Cole, Jr.**, 48, currently serves as CEO and President of the bank and the Company. Prior to joining the bank in September of 2002, Mr. Cole was Secretary/Treasurer and Chief Financial Officer of the Headrick Companies, Inc. for eleven years. Mr. Cole began his career with The First National Bank of Commerce in New Orleans, Louisiana and held the position of Corporate Banking Officer from 1985-1988. In December of 1988, Mr. Cole joined Sunburst Bank in Laurel, Mississippi serving as Senior Lender and later as President of the Laurel office. Mr. Cole graduated from the University of Mississippi where he earned a Bachelor s and Master s Degree in Business Administration. Mr. Cole also attended the Stonier Graduate School of Banking at the University of Delaware. He served as director of the Company from 1998 to 1999, and then from 2001 through the present. He also served as a director of our Laurel bank prior to consolidation and currently serves on the board of the bank.

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Experience/Qualifications/Skills: Mr. Cole has served on the board of the Company for ten years. Mr. Cole s years of experience in banking as well as his experience as CFO of a large company lend expertise to the board. His insight is an essential part of formulating our policies, plans and strategies.

The Board of Directors unanimously recommends you vote FOR Proposal 1 to elect all the nominees.

Set forth below is information about each of the Company s other directors and each of its executive officers.

Background: **Michael W. Chancellor**, 42, a Laurel businessman, is partner in Bob Palmer s Chancellor Motor Group–a business he entered in 2001, is owner of Chancellor Properties, a real estate investment company, and President of Chancellor Supply, Inc. He holds his B.S. in Business Administration with emphasis in Marketing from the University of Southern Mississippi. He is a member of the Rotary Club. He was an active member of the Laurel bank board since inception prior to consolidation and served on the Laurel Advisory Board. He is also serves as director of our bank.

Experience/Qualifications/Skills: Mr. Chancellor has served on the board of the Company since 2006. His experience in real estate investments, his involvement in several businesses and in the community, and his educational background make him a valuable asset to the board.

Background: **David E. Johnson**, 56, is the Chairman of the Board of the Company. Mr. Johnson, a native of Laurel, Mississippi, received a B.S. degree in Agricultural Economics in 1975 and an M.B.A. degree, with emphasis in Finance, in 1977 from Mississippi State University. In 1990, he graduated from the University of Oklahoma Commercial Lending and Graduate School. Mr. Johnson has completed various OMEGA lending courses and has taught a course at the University of Mississippi School of Banking. From 1993 to 1994, he served as chairman of the Southern Mississippi Group of Robert Morris & Associates. From 1987 to 1995, Mr. Johnson was with Sunburst Bank, which merged with Union Planters National Bank, as senior lender for the Hattiesburg branch and later as senior lender and credit administrator for southern Mississippi. He was responsible for approving loans and maintaining the credit quality of a $250 million portfolio of consumer, mortgage, and commercial loans. Currently, he is a member of Parkway Heights Methodist Church of Hattiesburg, the Hattiesburg Racquet Club and the Rotary Club. He served as a Director of the New Orleans Branch of the Atlanta Federal Reserve Bank. He was a National Director of the Independent Community Bankers of America and served on its Executive Committee. He also serves on the Board of Mississippi National Bankers Bank. He is on the Advisory Board for the Business School at the University of Southern Mississippi, and has served as a Director of the Area Development Partnership. Mr. Johnson has been a director of the Company since its inception in 1995 and is also a director of the bank.

Experience/Qualifications/Skills: Mr. Johnson has served on the board of the Company since its inception in 1995. He has over 32 years of experience in banking and is involved in the community. His vast knowledge of the bank s history and current operations, and its future plans lend insight that is essential in formulating our plans and strategies.

Background: **Charles R. Lightsey**, 70, owns his own business as a Social Security Disability Representative. Mr. Lightsey worked with the Social Security Administration for 39 years, serving as District Manager of the Laurel Office for 32 years. He is a recipient of The Commissioner s Citation, the highest accolade accorded by the SSA. His community involvement includes serving as a former deacon of the First Baptist Church of Laurel, member and Board of Directors of the Laurel Kiwanis Club, president of the Laurel–Jones County Council on Aging, member of the Pine Belt Mental Health Association Council and Chairman of the Federal, State and Local Government United Way. He received his degree in Management and Real Estate from the University of Southern Mississippi in 1961. Mr. Lightsey has been a director of the Company since 2003 and served on the board of the Laurel bank prior to consolidation. He currently serves on the Laurel Advisory Board and the board of the bank.

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Experience/Qualifications/Skills: Mr. Lightsey has served on the Company s board since 2003. His background as a manager with the Social Security Administration and his ownership of a business provide the board with a broad range of knowledge and business acumen.

Background: **Gregory H. Mitchell**, 69, former Mayor of Picayune, Mississippi, retired as procurement manager for Mississippi Space Services at Stennis Space Center. Mr. Mitchell is a member of Salem Baptist Church and the National Management Association (NMA), as well as the

Board of Trustees for Pearl River Community College where he was elected President in January, 2008, for a two year term. He also serves on the Board of Directors for the Picayune Chamber of Commerce; the Field Advisory Council, Division of Housing and Urban Development. Mr. Mitchell has been a director of the Company since 2003 and also serves on the Picayune Advisory Board and on the board of the bank.

Experience/Qualifications/Skills: Mr. Mitchell has served on the board of the Company since 2003. His experience as Mayor of the City of Picayune, MS and also as procurement manager provide the board with valuable insight in board discussions.

Background: **Ted E. Parker**, 50, attended the University of Southern Mississippi and served as a licensed commodity floor broker at the Chicago Mercantile Exchange. He has been in the stocker-grazer cattle business for more than 30 years. He was selected as Lamar County Young Farmer and Rancher for 1993 and served as a board member of Farm Bureau Insurance. He is a member of the National Cattlemen s Association, the Texas Cattle Feeders Association, Covington County Cattlemen s Association, and the Seminary Baptist Church. Mr. Parker has been a director of the Company since 1995 and is also a director of the bank.

Experience/Qualifications/Skills: Mr. Parker has served on the board of the Company since its inception in 1995. His experience in the cattle business provides the board with insight into the needs of agricultural community in our market. He is very familiar with the market in which he lives and works and is also very involved in his community.

Background: **Dennis L. Pierce**, 52, is president of Dennis Pierce, Inc., a real estate development company in Hattiesburg, Mississippi, and the owner and president of PierCon, Inc. of Hattiesburg, a general contracting firm. Through PierCon, Mr. Pierce is responsible for several commercial construction jobs, and he is also involved in numerous commercial ventures. Mr. Pierce is a director and national representative of the Hattiesburg Homebuilders Association, and a director of the North Lamar Water Association. Since 1995, he has been a member and broker with the Hattiesburg Board of Realtors. He attended the University of Southern Mississippi. Mr. Pierce has been a director of the Company since 1995 and is also a director of the bank.

Experience/Qualifications/Skills: Mr. Pierce has been a director of the Company since its inception in 1995. Mr. Pierce s experience as a builder and real estate investor provide the board with valuable knowledge in those areas. His advice and input over the years has proven to be very valuable to our board.

Background: **J. Douglas Seidenburg**, 50, is the owner and president of Molloy-Seidenburg & Co., P.A. He has been a CPA for more than 20 years. Mr. Seidenburg is involved in many civic, educational, and religious activities in the Jones County area. Past activities include serving as president of the Laurel Sertoma Club, president of the University of Southern Mississippi Alumni Association of Jones County, one of the founders of First Call for Help, a local United Way Agency started in 1990, treasurer of St. John s Day School, director of Leadership Jones County and Future Leaders of Jones County. Mr. Seidenburg is a graduate of the University of Southern Mississippi, where he earned a B.S. degree in Accounting. Mr. Seidenburg has been a director of the Company since 1998 and served as director of the Laurel bank prior to consolidation. He also serves on the board of the bank.

Experience/Qualifications/Skills: Mr. Seidenburg has served on the board of the Company since 1998. He is Chairman of the Audit Committee and Nominating Committee and serves as the Financial Expert. His experience as a CPA and his knowledge of Corporate Governance help provide the board with an understanding of financial and accounting issues that are faced in today s business environment.

Background: **Andrew D. Stetelman**, 49, is the third generation of his family in London and Stetelman Realtors. He graduated from the University of Southern Mississippi in 1983. He has served in many capacities with the National, State, and Hattiesburg Board of Realtors, and is past president and the Realtor of the Year in 1992 of the Hattiesburg Board of Realtors and the first Mississippi Commercial Realtor of the Year. He presently serves as the chairman of the Hattiesburg Convention Center, is a board member for the Area Development Partnership, and is a member of the Kiwanis International. Mr. Stetelman has been a director of the Company since 1995 and is also a director of the bank.

Experience/Qualifications/Skills: Mr. Stetelman has been a director of the Company since its inception in 1995. His experience in commercial real estate and real estate investments provides the board with insight in the trends and risks associated with residential and commercial real estate within all of our markets. His advice on all real estate issues is very valuable to the board.

Set forth below is information about the Company s non-director executive officers.

Background: **Dee Dee Lowery**, CPA, 43, serves as Executive Vice President and Chief Financial Officer of the Company and the bank. Prior to joining the bank in February of 2005, Mrs. Lowery was Vice President and Investment Portfolio Manager of Hancock Holding Company for 4 years. Mrs. Lowery began her career in 1988 with McArthur, Thames, Slay and Dews, PLLC as a staff accountant until joining Lamar Capital Corporation in 1993. From 1993 until the merger in 2001 with Hancock Holding Company, Mrs. Lowery held several positions beginning with Internal Auditor for 2 years, Comptroller for 3 years and then Chief Financial Officer and Treasurer for 3 years. Mrs. Lowery graduated from the University of Southern Mississippi where she earned a Bachelor s Degree in Business Administration with an emphasis in Accounting. Mrs. Lowery is on the Advisory Board for the Business School at the University of Southern Mississippi. Mrs. Lowery is a member of the MS Society of Certified Public Accountants and the American Institute of Certified Public Accountants. Mrs. Lowery is a member of the Funds Distribution Committee of the United Way, the Rotary Club of Petal and the Petal Children s Task Force. Mrs. Lowery is also an active member of The Turning Pointe Church.

Background: **David O. Thoms, Jr.**, 65, serves as Executive Vice President and Chief Operating Officer for The First Bancshares, Inc., and the bank. Mr. Thoms received a B.S. in General Business from Mississippi State University in 1966. Mr. Thoms worked as a state bank examiner prior to beginning his banking career in 1969 with Commercial National Bank and Trust Company (now known as Trustmark National Bank) in Laurel, Mississippi, where he served as Vice President and Cashier and was in charge of all phases of operations. Prior to joining the Hattiesburg bank in 1998, Mr. Thoms was co-owner of Builders Supply Company of Hattiesburg, Inc. from June of 1990 through December of 1997 and Thoms Accounting Service since February 1997. Mr. Thoms is also a graduate of the School for Bank Administration at the University of Wisconsin and the School of Banking of the South at LSU. Mr. Thoms spent 27 years in the Mississippi Army National Guard, retiring in 1993 as a Lt. Colonel-Transportation Corp.

Family Relationships

M. Ray (Hoppy) Cole, Jr., Director, CEO and President of the Company and the Bank, is the son of Ellen Cole, President, Pascagoula Branch.

COMPENSATION DISCUSSION AND ANALYSIS

Overview of Compensation Program

The Compensation Committee (for purposes of this analysis, the Committee) of the Board has responsibility for establishing, implementing and continually monitoring adherence with the Company s compensation philosophy. The Committee ensures that the total compensation paid to the named executive officers is fair, reasonable and competitive. Generally, the types of compensation and benefits provided to the named executive officers, including the actively-employed named executive officers, are similar to those provided to other executive officers in publicly traded financial institutions.

On February 6, 2009, we became a participant in the U.S. Treasury s Troubled Asset Relief Program (TARP) by participating in the Capital Purchase Program element of TARP. As a result of our participation in TARP, The First Bancshares, Inc. and certain of our employees will be subject to compensation related limitations and restrictions for the period that we continue to participate in TARP. The TARP compensation limitations and restrictions include the following:

- Except in limited circumstances, our most highly compensated employee (as determined will be prohibited from receiving cash bonus payments during the TARP period. Mr. J subject to this limitation during 2009.
- Except in limited circumstances, our Named Executive Officers (NEOs) and our next f compensated employees (each as determined on an annual basis) will be prohibited fro any severance payments upon a termination of employment or any payments triggered by occurrence of a change in control.
- Our NEOs and next 20 most highly compensated employees will be subject to a "clawbac compensation if that compensation is based on materially inaccurate financial statem performance metrics. Further, no one in this group of employees may receive any tax payment during the TARP period.
- We will be limited to an annual tax deduction of $500,000 with respect to the compen of our NEOs.

The TARP rules further required us to adopt an Excessive or Luxury Expenditure Policy. Our board of directors has complied with this requirement and the policy is located on our website, www.thefirstbank.com. It is the intent of our board of directors that the policy remain in full force and effect for the duration of the TARP period. The policy covers, in particular, entertainment or events, office and facility renovations, aviation or other transportation services and other similar items, activities or events for which we may reasonably anticipate such expenditures that are not reasonable expenditures for staff development, reasonable performance incentives, or other similar reasonable measures conducted in the normal course of our business operations. All of our employees are required to comply with the policy. Our Chief Executive Officer and Chief Financial Officer are primarily accountable for adherence to the policy and for certifying that prior approval for any expenditure requiring such prior approval was properly obtained.

In addition to the foregoing limitations and restrictions, the TARP rules and regulations will require the Compensation Committee to undertake a semi-annual risk assessment with respect to certain of the compensation plans, programs and arrangements maintained by the Company, regardless of whether the individual employee(s) covered by the plan, program or arrangement is a NEO. The risk assessments are intended to reduce the chance that any employee will be incentivized to take unacceptable risks in order to maximize his or her compensation under such plans, programs and arrangements.

As the TARP final rules were implemented in 2009, the Compensation Committee regularly discussed its compliance obligations with respect to our executive compensation programs at each committee meeting. It has depended upon guidance from our legal counsel to fully interpret the extent of the application of each of these requirements in our executive compensation programs.

Similar to the required TARP semi-annual risk assessment, in late 2009, the Board of Governors of the Federal Reserve System issued proposed guidance that set forth a framework for assessing the soundness of incentive compensation plans, programs and arrangements maintained by financial institutions. Although the guidance is designated as proposed, the Federal Reserve has indicated that it expects current compliance with the guidance. The Federal Reserve s framework focuses on balanced risk-taking incentives, compatibility with effective controls and risk management, and strong corporate governance.

The Compensation Committee believes that an awareness and assessment of the impact of risk has always been, and will continue to be, a component of its analysis of executive compensation. As such, the committee recognizes the role of risk assessment in the overall processes and procedures for establishing such executive compensation. In this regard, the committee believes that the TARP semi-annual risk assessment and the Federal Reserve s proposed rules will serve as a framework for reconfirming the appropriateness of the process and procedure the committee has previously followed in reaching its decisions with respect to compensation related matters.

Throughout this proxy statement, the individuals who served as the Company s Chief Executive Officer and Chief Financial Officer during fiscal 2009 as well as the other individuals included in the Summary Compensation Table on page 17, are referred to as the named executive officers.

Compensation Philosophy and Objectives

The Committee believes that the most effective executive compensation program is one that is designed to reward the achievement of specific annual, long-term and strategic goals by the Company, and which aligns the interests of the executive officers with the Company s overall business strategy, values and management initiatives. These policies are intended to reward executives for strategic management and the enhancement of shareholder value and support a performance-oriented environment that rewards achievement of internal goals. The Committee evaluates both performance and compensation to ensure that the Company maintains its ability to attract and retain superior employees in key positions and that compensation provided to key employees remains competitive relative to the compensation paid to similarly situated executives of our peer companies. To that end, the Committee believes executive compensation packages provided by the Company to its executives, including the named executive officers, should be designed to include both cash and stock-based compensation that reward performance as measured against established goals.

Role of Executive Officers in Compensation Decisions

The Committee makes all compensation decisions for the named executive officers and approves recommendations regarding equity awards to all named executive officers of the Company. Decisions regarding the non-equity compensation of other executive officers are made by the Committee and the Chief Executive Officer.

The Committee and the Chief Executive Officer annually reviews the performance of each member of the named executive officers (other than the Chief Executive Officer whose performance is reviewed by the Committee). The conclusions reached and recommendations based on these reviews, including with respect to salary adjustments and annual award amounts, are presented to the Committee. The Committee can exercise its discretion in modifying any recommended adjustments or awards to executives.

Setting Executive Compensation

Based on the foregoing objectives, the Committee has structured the Company s annual and long-term incentive-based cash and non-cash executive compensation to motivate executives to achieve the business goals set by the Company and reward the executives for achieving such goals. To that end, the Committee has retained Blanchard Chase to provide research for benchmarking purposes related to executive compensation. Additionally, the Company subscribes to and participates in the Mississippi Bankers Association survey, which provides the Committee with comparative compensation data from the Company s market areas and its peer groups. This information is used by the committee to ensure that it is providing compensation opportunities comparable to its peer group, thereby allowing the Company to retain talented executive officers who contribute to the Company s overall and long-term success.

It is anticipated that the services provided by the third-party consultant will be used as the basis of comparison of compensation between the Company and the companies in the Compensation Peer Group.

Compensation Policies and Practices as They Relate to Risk Management

As participants in the TARP Capital Purchase Program (the CPP) administered by the United States Department of the Treasury, the Company is subject to the executive compensation requirements of the Emergency Economic Stabilization Act of 2008 (EESA) and as amended by the American Recovery and Reinvestment Act of 2009 (ARRA). In compliance therewith the Compensation Committee of the Board of Directors of the Company meets at least semi-annually to discuss and evaluate employee compensation plans in light of its assessment of risk posed to the Company from such plans and to ensure compliance with executive compensation rules and regulations implemented under EESA and ARRA. The Compensation Committee met twice in 2009 to review the Company s compensation plans and determined that the Company had no compensation plans that would encourage manipulation of reported earnings to enhance compensation or encourage unnecessary or excessive risk-taking. The Compensation Committee has determined that there are no compensation policies or procedures that are likely to have a material adverse effect on the Company.

Capital Purchase Program Effect on Executive Compensation

In February, 2009 the Company entered into a transaction with the Department of the Treasury under the TARP Capital Purchase Program (CPP). In order to participate in the CPP, the Company will also be required to adopt the Treasury standards for executive compensation and corporate governance for the period during which the Treasury holds equity in the Company issued under the CPP. The Company must meet certain standards, including: (1) ensuring that incentive compensation for certain senior executives does not encourage unnecessary and excessive risks that threaten the value of the Company; (2) requiring a return to the Company of any bonus or incentive compensation paid to certain senior executives based on financial statements or other performance metric criteria that are later proven to be materially inaccurate; (3) prohibiting the Company from making certain excess payments to certain senior executives made on account of involuntary separations from service or in connection with a bankruptcy, insolvency or receivership of the Company; and (4) agreeing not to deduct for tax purposes executive compensation in excess of $500,000 for each applicable senior executive. These standards could change based on subsequent guidance issued by the Treasury or the Internal Revenue Service. Both prior to its participation in the CPP, and for so long as the Treasury continues to hold equity interests in the Company issued under the CPP, the Company will monitor its compensation arrangements and modify such compensation arrangements, agree to limit and limit its compensation deductions, and take such other actions as may be necessary to comply with the standards discussed above, as they may be modified from time to time. The Company does not anticipate that any material changes to its existing executive compensation structure will be required to comply with the executive compensation standards included in the CPP.

Effect of American Recovery and Reinvestment Act of 2009

On February 17, 2009, President Obama signed into law the American Recovery and Reinvestment Act of 2009 (ARRA). ARRA contains expansive new restrictions on executive compensation for financial institutions and other companies participating in the CPP. These restrictions apply to us.

ARRA prohibits bonus and similar payments to top employees. ARRA prohibits the payment of any bonus, retention award, or incentive compensation to the Chief Executive Officer and the four other highest paid executive officers of the Company and the next 20 most highly compensated employees for as long as any CPP-related obligations are outstanding. The prohibition does not apply to bonuses payable pursuant to employment agreements in effect prior to February 11, 2009. Long-term restricted stock is excluded from ARRA s bonus prohibition, but only to the extent the value of the stock does not exceed one-third of the total amount of annual compensation of the employee receiving the stock, the stock does not fully vest until after all CPP-related obligations have been satisfied, and any other conditions which the Treasury may specify have been met.

ARRA prohibits any payment to the Chief Executive Officer and the four other highest paid executive officers of the Company and any of the next five most highly compensated employees upon termination of employment for any reason for as long as any CPP-related obligations remain outstanding.

Under ARRA CPP-participating companies are required to recover any bonus or other incentive payment paid to the Chief Executive Officer and the four other highest paid executive officers of the Company or to the next 20 most highly compensated employees on the basis of materially inaccurate financial or other performance criteria.

ARRA prohibits CPP participants from implementing any compensation plan that would encourage manipulation of the reported earnings of the Company in order to enhance the compensation of any of its employees. The Treasury guidelines do not contain a similar requirement.

ARRA requires the Chief Executive Officer and the Chief Financial Officer of any publicly-traded CPP-participating company to provide a written certification of compliance with the executive compensation restrictions in ARRA in the company s annual filings with the SEC beginning in 2010.

ARRA requires each CPP-participating company to implement a company-wide policy regarding excessive or luxury expenditures, including excessive expenditures on entertainment or events, office and facility renovations, aviation or other transportation services.

ARRA directs the Treasury to review bonuses, retention awards, and other compensation paid to the Chief Executive Officer and the four other highest paid executive officers of the Company and the next 20 most highly compensated employees of each company receiving CPP assistance before ARRA was enacted, and to seek to negotiate with the CPP recipient and affected employees for reimbursement if it finds any such payments were inconsistent with CPP or otherwise in conflict with the public interest.

The Compensation Committee will consider these new limits on executive compensation and determine how they impact the Company s executive compensation program.

2009 Executive Compensation Components

Historically, and for the fiscal year ended December 31, 2009, the principal components of compensation for named executive officers were:

- base salary;
- performance-based incentive bonus compensation;
- equity incentive compensation;
- retirement and other benefits; and
- Perquisites and other personal benefits.

Base Salary

The Company provides named executive officers and other employees with base salary to compensate them for services rendered during the fiscal year. Base salary ranges for named executive officers are determined for each executive based on his or her position and responsibility.

During its review of base salaries for executives, the Committee primarily considers: 1) performance of the Company; 2) market data provided by our outside consultants; 3) internal review of the executive s compensation, both individually and relative to other officers; and 4) individual performance of the executive. Salary levels are typically considered annually as part of the Company s performance review process as well as upon a promotion or other change in job responsibility. Merit based increases to salaries of the named executive officers are based on the Committee s assessment of the individual s performance.

Performance-Based Incentive Compensation

The Company has established an incentive bonus compensation plan that is based upon individual performance as well as team and corporate performance. Named executive officers in the Company have unique performance goals in up to nine (9) categories. The individual measures relate primarily to sales, service quality, regulatory compliance, timeliness, and financial goals. The particular measures on an individual s performance depend on the actions that are determined to be most important for that individual to achieve for the current year. The estimated bonus payouts are accrued throughout the year. Cash bonuses may be granted to executives at each year end depending on the achievement of a corporate performance target such as earnings per share, which was used in 2008. The Company s Chief Executive Officer has measures that are company-wide in nature. The measures for 2008 were for net income, earnings per share and return on equity. Each measure was weighted equally for 2009.

For the year ended December 31, 2009, the following cash bonuses were awarded:

David E. Johnson	$ 0.00
M. Ray (Hoppy) Cole, Jr.	0.00
Dee Dee Lowery	2,000.00
David O. Thoms, Jr	0.00
Carol M. Daniel(1)	2,000.00
Ray L. Wesson, Jr.(1)	2,250.00

(1) Carol M. Daniel and Ray L. Wesson, Jr. are executive officers of the bank and not the holding

Equity Incentive Compensation

<u>1999 Stock Option Plan</u>

On May 27, 1999, the Company's shareholders approved the 1999 Stock Incentive Plan (1999 Plan). T Plan provides for the granting of options to purchase up to 213,376 shares of the Company's commo Company's and its subsidiary's directors, key employees, and management. Under the 1999 Plan, th grant either incentive stock options or nonqualified stock options. Options granted to directors vest in equal amounts over three years. Stock options granted to management vest based on annual goals or after nine years and eleven months, if still employed. At December 31, 2009 all options exercised or forfeited. All options expired and were void unless exercised on or before April 15 options were exercisable at not less than the market value of the Company's stock at the grant. were exercised and 88,158 shares were forfeited in 2009.

2007 Stock Option Plan

In 2007, the Company adopted the 2007 Stock Incentive Plan. The 2007 Plan provides for up to 315,000 shares of Company Common Stock, $1.00 par value per share. Shares issued under the consist in whole or in part of authorized but unissued shares or treasury shares.

Awards of Company Common Stock under the 2007 Plan may take the form of a stock option, incentive stock option (a stock option which meets the applicable requirements of the Internal Re stock appreciation rights (an award entitling a holder to receive an amount in cash, Company Comm combination of both determined by reference to the excess of the fair market value of a specified shares of Company Common Stock over a specified price which shall not be less than the fair marke shares as of the date of the grant), restricted stock awards (a transfer of shares subject to cer restrictions on transfer or other incidents of ownership or subject to specified performance stan equivalent rights (an award entitling a holder to receive an amount in cash, Company Common Stock combination of both determined by reference to the cash dividends paid on a specified number of s Common Stock from the date of grant), performance unit awards, restricted stock units or other st (including without limitation, awards entitling recipients to receive shares of Company Common St delivered in the future) (collectively referred to as "Awards"). As of December 31, 2009, no awa granted.

Retirement and Other Benefits

All employees of the Company, including named executive officers, are eligible to participa First Bancshares, Inc. 401K Plan and Trust.

The Company sponsors an Employee Stock Ownership Plan (ESOP), which was established in 20 who have completed one year of service for the Company and attained age 21. Employees become ful five years of service. Contributions to the plan are at the discretion of the Board of Directors 31, 2009, the ESOP held 6,620 shares of Company common stock and had no debt obligation.

Perquisites and Other Personal Benefits

The Company provides named executive officers with perquisites and other personal benefits and the Committee believe are reasonable and consistent with its overall compensation program to the Company to attract and retain superior employees for key positions. The Committee periodicall levels of perquisites and other personal benefits provided to named executive officers.

The named executive officers participate in the Company's broad-based employee benefit plan medical, dental, supplemental disability and term life insurance programs. Some of the named exe are provided use of company automobiles. The vehicle is provided primarily for their business tr use is taxed through the Company's payroll process. Each named executive officer and certain oth senior management are entitled to receive a cash payment upon such executive's death through the death benefit funded by bank owned life insurance.

Attributed costs of the personal benefits described above for the named executive officers year ended December 31, 2009, are included in the "Summary Compensation Table" on page 17.

The Company has entered into Change of Control Agreements with certain key employees. The C Agreements are designed to promote stability and continuity of senior management. Information reg applicable payments under such agreements for the named executive officers is provided under the "Potential Payments Upon Termination or Change in Control" on pages 22 and 23.

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Deductibility of Executive Compensation

As part of its role, the Committee reviews and considers the deductibility of executive com Section 162(m)(5) of the Internal Revenue Code, which provides that the Company may not deduct co more than $500,000 that is paid to certain individuals. The Company believes that compensation pa incentive plans are generally fully deductible for federal income tax purposes.

COMPENSATION COMMITTEE REPORT

The Compensation Committee certifies that it has reviewed with senior risk officers the compensation arrangements and has made reasonable efforts to ensure that such arrangements do not to take unnecessary and excessive risks that threaten the value of the financial institution.

The Compensation Committee of the Company has reviewed and discussed the Compensation Discu Analysis required by Item 402(b) of Regulation S-K with management and, based on such review and Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be Proxy Statement.

THE COMPENSATION COMMITTEE

E. Ricky Gibson, Chairman
David W. Bomboy
Charles R. Lightsey
Gregory H. Mitchell

The First Bancshares, Inc.
Summary Compensation Table (SCT)
For the Year ended December 31, 2009

Name and Principal Position	Year	Salary	Non-equity Incentive Pl Compensation
David E. Johnson, Chairman of the Board	2009	$187,947.46	$ 0.00
	2008	197,486.28	0.00
	2007	162,591.00	80,950.00
M. Ray (Hoppy) Cole, Jr., President and Chief Executive Officer	2009	173,114.13	0.00
	2008	164,403.86	0.00
	2007	155,465.10	12,717.00
Dee Dee Lowery, Chief Financial Officer	2009	121,664.66	2,000.00
	2008	117,109.08	1,929.50
	2007	110,518.27	15,000.00
David O. Thoms, Jr., Chief Operations Officer	2009	86,450.54	0.00
	2008	86,595.97	0.00
	2007	83,539.34	7,623.00
Carol M. Daniel, Credit Administrator(1)	2009	139,253.13	2,000.00
	2008	135,012.16	3,000.00
	2007	132,200.04	15,450.00
Ray L. Wesson, Jr., President, Southern Region(1)(2)	2009	153,000.00	2,250.00
	2008	143,173.08	3,000.00
	2007	N/A	N/A

(1) Carol M. Daniel and Ray L. Wesson, Jr. are executive officers of the bank and not the holding
(2) Ray L. Wesson, Jr. began his employment on January 1, 2008

The First Bancshares, Inc.
SCT (Continued)
All Other Compensation
For the Year Ended December 31, 2009

Name	Year	Auto Allowance	401(k) Match	Group Term Life Insurance	Medical, Dental, Disability Insurance	Split Dol Death Ben BOLI
David E. Johnson	2009	$465.00	$5,727.55	$344.00	$5,144.53	$495.
	2008	390.00	5,924.58	360.00	5,212.56	2,075.
	2007	652.50	5,250.56	360.00	6,056.26	2,069.
M. Ray (Hoppy) Cole, Jr.	2009	952.50	5,342.72	344.00	6,101.30	396.
	2008	990.00	5,060.21	360.00	5,984.02	366.
	2007	1,162.50	4,619.00	360.00	6,845.92	333.
Dee Dee Lowery	2009	-	3,688.65	203.20	4,624.73	258.
	2008	-	3,542.41	316.80	4,372.66	240.
	2007	-	2,476.60	360.00	5,180.56	225.
David O. Thoms, Jr.	2009	-	2,679.31	236.80	3,896.07	868.
	2008	-	2,611.81	234.00	4,702.47	1,041.
	2007	-	2,524.06	230.40	5,893.88	906.
Carol M. Daniel (2)	2009	-	4,244.59	344.00	6,267.13	
	2008	-	4,172.36	360.00	5,893.94	
	2007	-	999.24	360.00	6,845.92	
Ray L. Wesson, Jr.(2)(3)	2009	727.50	3,375.00	344.00	2,795.85	
	2008	577.50	-	360.00	658.60	
	2007	N/A	N/A	N/A	N/A	N

(1) Represents reimbursement for club dues and cell phones for all named executives
(2) Carol M. Daniel and Ray L. Wesson, Jr. are executive officers of the bank and not the holding
(3) Ray L. Wesson, Jr. began his employment on January 1, 2008
(4) Amount includes $114,835 which represents David Johnson's exercise of non-incentive stock op
2007 from the 1997 Stock Option Plan. The exercise price was $5.00 per share for 6,562 share
value at the time of exercise was $22.50 per share.

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The First Bancshares, Inc.
Outstanding Equity Awards at Fiscal Year-End
As of December 31, 2009

Name	Number of Securities Underlying Unexercised Options (#) Exercisable (2)	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards Number of Securities Underlying Unexercised Unearned Options(#)	Options Exercise Price($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested	Mar Valu Shar Unit Stoc Have Vest
David E. Johnson	-	-	-	-	-	-	-
M. Ray (Hoppy) Cole, Jr.	-	-	-	-	-	-	-
Dee Dee Lowery	-	-	-	-	-	-	-
David O. Thoms, Jr.	-	-	-	-	-	-	-
Carol M. Daniel(1)	-	-	-	-	-	-	-
Ray L. Wesson, Jr.(1)	-	-	-	-	-	-	-

(1) Carol M. Daniel and Ray L. Wesson, Jr. are executive officers of the bank and not the holding
(2) All options expired and were void unless exercised on or before April 15, 2009

The First Bancshares, Inc.
Option Exercises and Stock Vested
For the Year Ended December 31, 2009

Name	Option Awards: Number of Shares Acquired on Exercise (#)	Option Awards: Value realized Upon Exercise (#)
David E. Johnson, Chairman of the Board	-	-
M. Ray (Hoppy) Cole, Jr., President and CEO	2,000	$1,920.00
Dee Dee Lowery, CFO	-	-
David O. Thoms, Jr., COO	-	-
Carol M. Daniel, Credit Administrator(1)	-	-
Ray L. Wesson, Jr., President, Southern Region(1)	-	-

(1) Carol M. Daniel and Ray L. Wesson, Jr. are executive officers of the bank and not the holdin

The First Bancshares, Inc.
Director Compensation Table
For the Year Ended December 31, 2009

Name	Fees Earned or Paid in Cash (1)($)	Stock Awards ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings	Co
David E. Bomboy	$8,700.00	$ -	$ -	$ -	$ -	$
Michael W. Chancellor	8,075.00	-	-	-	-	
E. Ricky Gibson	14,400.00	-	-	-	-	
Charles R. Lightsey	15,625.00	-	-	-	-	
Fred A. McMurry	8,300.00	-	-	-	-	
Gregory H. Mitchell	9,550.00	-	-	-	-	
Perry E. Parker(2)	-	-	-	-	-	
Ted Parker	8,250.00	-	-	-	-	
Dennis L. Pierce	7,075.00	-	-	-	-	
J. Douglas Seidenburg	13,850.00	-	-	-	-	
Ralph T. Simmons(3)	13,050.00	-	-	-	-	
A. L. Smith(2)	-	-	-	-	-	
Andrew D. Stetelman	11,450.00	-	-	-	-	

(1) The First Bancshares, Inc. board meeting pays $250 per meeting; The First, A National Bankin Association board meeting pays $400 per meeting; advisory board meeting pays $150 per meetin audit committee meeting pays $200 per meeting, all other committee meetings pay $150 per mee

Chairmen of Audit, Compensation ,Nominating and Compliance Committees are paid a retainer o
per quarter. The fees were paid for meetings attended January through December, 2009. Each
is paid in the form of cash.

(2) Represents Director Emeritus fee.

(3) Ralph T. Simmons retired from the board effective 1-1-10.

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The First Bancshares, Inc.
Potential Payments Upon Termination or Change-in-Control
As of December 31, 2009

Executive Benefits and Payments Upon Termination	Voluntary Termination	Termination for Good Reason Upon Change in Control
David E. Johnson		
Compensation:		
Base Salary	$273,750.00	$365,000.00
Benefits & Perquisites:		
BOLI Death Benefit		
M. Ray (Hoppy) Cole, Jr.		
Compensation:		
Base Salary	-	-
Benefits & Perquisites:		
BOLI Death Benefit		
Dee Dee Lowery		
Compensation:		
Base Salary	-	195,000.00
Benefits & Perquisites:		
BOLI Death Benefit		
David O. Thoms, Jr.		
Compensation:		
Base Salary	-	-
Benefits & Perquisites:		
BOLI Death Benefit		

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The First Bancshares, Inc.
Potential Payments Upon Termination or Change-in-Control (Continued)
As of December 31, 2009

Executive Benefits and Payments Upon Termination	Voluntary Termination	Termination for G Reason Upon Change in Con
Carol M. Daniel (1)		
Compensation:		
Base Salary(2)	-	-
Benefits & Perquisites:		
BOLI Death Benefit		
Ray L. Wesson, Jr. (1)		
Compensation:		
Base Salary	-	-
Benefits & Perquisites:		
BOLI Death Benefit		

(1) Carol M. Daniel and Ray L. Wesson, Jr. are executive officers of the bank and not the holding
(2) The agreement is silent as to compensation payable in the event of a change in control. Howe
and one-half years of employment.

The Stimulus Bill's executive compensation restrictions will prohibit the Company from making executive officers "for departure from the Company for any reason, except for payments for se accrued".

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information regarding the beneficial ownership of common s Company owned by the directors, nominees for director, and executive officers, as of March 25, 2

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership(1)	Percent of Class (2)
David W. Bomboy, M.D.	71,062	2.36
Michael W. Chancellor	29,141	.97
M. Ray (Hoppy) Cole, Jr.	18,706	.62
E. Ricky Gibson	53,640	1.78
David E. Johnson	74,120	2.46
Charles R. Lightsey	32,230	1.07
Fred A. McMurry	52,494	1.74
Gregory H. Mitchell	1,610	.06
Ted E. Parker	41,300	1.37
Dennis L. Pierce	58,270	1.93
J. Douglas Seidenburg	53,500	1.78
Ralph T. Simmons(3)	43,000	1.43
Andrew D. Stetelman	25,404	.85
Dee Dee Lowery	12,112	.41
David O. Thoms, Jr.	8,169	.27
Executive Officers, Directors, and Nominees as a group	574,758	19.10

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(1) Includes shares for which the named person:
- has sole voting and investment power,
- has shared voting and investment power with a spouse, or
- holds in an IRA or other retirement plan program, unless otherwise indicated in the

(2) Calculated based on 3,019,869 shares outstanding

(3) Retired from the board effective 1/1/10

Stock Ownership of Principal Stockholders

As of March 25, 2010, to the registrant s knowledge, there were no beneficial owners of five percent (5%) or more of the outstanding common stock.

CORPORATE GOVERNANCE

Corporate Governance Guidelines. The Board of Directors Nominating Committee has enacted guidelines to determine director independence and qualifications for directors. The Nominating Committee Charter is published at the Corporation s website under the Corporate Governance at www.thefirstbank.com. The Board regularly reviews corporate governance developments and considers modifications to its governance charter to clarify and augment the Board s processes, including those relating to risk oversight.

The Board s Role in Risk Oversight. We believe that each member of our Board of Directors in his or her fiduciary capacity has a responsibility to monitor and manage risks faced by the Company. At a minimum, this requires the members of our Board of Directors to be actively engaged in board discussions, review materials provided to them, and know when it is appropriate to request further information from management and/or engage the assistance of outside advisors. Furthermore, because the banking industry is highly regulated, certain risks to the Company are monitored by the Board of Directors and the Audit Committee through its review of the Company s compliance with regulations set forth by its regulatory authorities and recommendations contained in regulatory examinations.

Because we believe risk oversight is a responsibility for each member of the Board of Directors, we do not concentrate the Board s responsibility for risk oversight in a single committee. Instead, each of our committees concentrates on specific risks for which they have an expertise, and each committee is required to regularly report to the Board of Directors on its findings. For example, the audit committee regularly monitors the Company s exposure to certain reputational risks by establishing and evaluating the effectiveness of company programs to report and monitor fraud and by monitoring the Company s internal controls over financial reporting. Our compensation committee s role in monitoring the risks related to our compensation structure is discussed in further detail below.

Director Independence. The First Bancshares, Inc. currently has nine independent directors out of twelve. The Board has satisfied, and expects to continue to satisfy, its objective that at least a majority of the Board should consist of independent directors. For a director to be considered independent, the Board must determine that the director does not have any direct or indirect material relationship with the Company. The Board has established guidelines to assist it in determining director independence which conform to the independence requirements of the NASDAQ Stock Exchange listing standards. In addition to applying these guidelines, the Board will consider all relevant facts and circumstances in making an independence determination.

In the course of the Board s determination regarding independence, it considers any transactions, relationships and arrangements as required by the Company s independence guidelines.

All members of the Audit Committee, Compensation Committee, and Nominating Committee must be independent directors as defined by NASDAQ. Members of the Audit Committee also must satisfy a separate Securities and Exchange Commission (SEC) independence requirement, which provides that they may not accept directly or indirectly any consulting, advisory or other compensatory fee from the Company or its subsidiaries other than their directors compensation.

Director Candidates, Qualifications and Diversity. In considering whether to recommend any candidate for inclusion in the Board s slate of recommended director nominees, including candidates recommended by stockholders, the Nominating Committee will consider a number of criteria, including, without limitation, financial, regulatory and business experience; familiarity with and participation in the local community; integrity, honest and reputation; dedication to the Company and its stockholders; independence and any other factors the Nominating Committee deems relevant, including age, diversity, size of the Board of Directors and regulatory disclosure obligations. Although the Nominating Committee has no official policy regarding diversity, the committee seeks well-qualified nominees, and believes its Board represents a wide variety of backgrounds.

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Board Leadership Structure. The Board of Directors of the Company is made up of twelve individuals, two of whom are insiders as executives of the Company. The ten outside directors have a wide variety of business experience and bring that experience to bear in fulfilling their duties as directors of the Company. The Chairman and Chief Executive Officer positions are held separately. The Board has not named a lead independent director. All independent directors have an equal voice in the business of the Company.

The Board of Directors has the primary responsibility of overseeing the Company s risk management processes, including reviewing policies and procedures to identify any significant risks or exposures and determining the steps to take to monitor and minimize those risks. The Audit Committee is responsible for oversight of financial reporting risks, while the Compensation Committee is responsible for oversight of compensation-related risks.

Standards of Conduct. All directors, officers and employees of The First Bancshares, Inc. must act ethically at all times and in accordance with the policies comprising the Code of Ethics for Financial Officers, a copy of which can be found at the Company s internet website, www.thefirstbank.com.

Communicating Concerns to Directors. The Audit Committee and the non-management directors have established procedures to enable any employee who has a concern about The First Bancshares conduct, policies, accounting, internal accounting controls or auditing matters, to communicate that concern directly to the Board through an email or written notification directed to the Chairman of the Audit Committee c/o Chandra Kidd, Corporate Secretary. Such communications may be confidential or anonymous. The Company s Whistleblower Policy is available on the Company s website, www.thefirstbank.com. The status of any outstanding concern, if any, is reported to the non-management directors of the Board periodically by the Chairman of the Audit Committee.

Stockholder Communications. Stockholders may communicate with all or any member of the Board of Directors by addressing correspondence to the Board of Directors or to the individual director and addressing such communication to Chandra B. Kidd, Secretary, The First Bancshares, Inc., P. O. Box 15549, Hattiesburg, Mississippi, 39404. All communications so addressed will be forwarded to the Chairman of the Board of Directors (in case of correspondence addressed to the Board of Directors) or to the individual director without exception.

ADDITIONAL INFORMATION CONCERNING DIRECTORS AND OFFICERS

Meetings of the Board of Directors

During the year ended December 31, 2009, the Board of Directors of the Company held 5 meetings. All of the directors of the Company attended at least 75% of the aggregate of such Board meetings and the meetings of each committee on which they served, except: Michael W. Chancellor, and Dennis Pierce. The Board of Directors of the Bank held 15 meetings during the year ended December 31, 2009.

Committees of the Board of Directors

The Audit Committee of the Company is composed of the following independent members: J. Douglas Seidenburg, E. Ricky Gibson, Gregory H. Mitchell, Charles Lightsey and Michael W. Chancellor. The Audit Committee met five times during the year ended December 31, 2009. On February 21, 2002, the Board adopted a written Audit Committee Charter, a copy of which can be found at the Company s internet website at www.thefirstbank.com under Corporate Governance . The Audit Committee has the responsibility of reviewing the Company s financial statements, evaluating internal accounting controls, reviewing reports of regulatory authorities, and determining that all audits and examinations required by law are performed. The Committee also recommends to the Board of the Company the appointment of the independent auditors for the next fiscal year, reviews and approves the auditor s audit plans, and reviews with the independent auditors the results of the audit and management s responses. The Audit Committee is responsible for overseeing the entire audit function and appraising the effectiveness of internal and external audit efforts for the Company. The Audit Committee reports its findings to the Board of Directors of the Company. The Board of Directors has determined that the members of the Audit Committee are independent. The Board of Directors has also determined that there is at least one independent audit committee financial expert, J. Douglas Seidenburg, serving on the Audit Committee, as the terms independent and audit committee financial experts are used in pertinent Securities and Exchange Commission laws and regulations.

The Company s Board of Directors has appointed a Compensation Committee and a Nominating Committee.

The Compensation Committee is responsible for establishing the compensation plans for the bank. Its duties include the development with management of all benefit plans for employees of the bank, the formulation of bonus plans, incentive compensation packages, and medical and other benefit plans. On April 4, 2008, the Board adopted a written Compensation Committee Charter and a Compensation Philosophy, which can be found at the Company s internet website at www.thefirstbank.com under Corporate Governance . The Compensation Committee met eight times during the year ended December 31, 2009. The Compensation Committee is composed of the following members: E. Ricky Gibson, David Bomboy, Charles Lightsey, and Gregory H. Mitchell, all of whom are independent directors.

The Nominating Committee is responsible for nominating individuals for election to the Company s Board of Directors. The Nominating Committee met three times during the year ended December 31, 2009, and consists of J. Douglas Seidenburg, Andrew Stetelman, Fred A. McMurry, and Ted Parker, all of whom were independent directors. The Company adopted a Nominating Committee Charter, a copy of which was attached as Exhibit B to the Proxy Statement for the 2004 Annual Meeting. A copy of the Nominating Committee Charter can be found at the Company s internet website at www.thefirstbank.com under Corporate Governance . The Nominating Committee welcomes recommendations made by shareholders of the Company. Any recommendations for the 2011Annual Shareholders Meeting should be made in writing addressed to the Nominating Committee, c/o Chandra Kidd at 6480 U.S. Highway 98 West (39402), Post Office Box 15549, Hattiesburg, Mississippi, 39404-5549 by January 27, 2011. It is the Nominating Committee s policy to consider director candidates recommended by stockholders who appear to be qualified to serve on the Company s Board of Directors. The Nominating Committee may choose not to consider an unsolicited recommendation if no vacancy exists on the Board of Directors and the Nominating Committee does not perceive a need to increase the size of the Board of Directors. The Nominating Committee will consider only those director candidates recommended in accordance with the Nominating Committee Shareholder Policies and Procedures, a copy of which was attached as Exhibit C to the

Proxy Statement for the 2004 Annual Meeting. A copy of the Nominating Committee Shareholder Policies and Procedures can be found at the Company s internet website at www.thefirstbank.com under Corporate Governance .

Report of the Audit Committee

The Audit Committee of the Company has:

- Reviewed and discussed the audited financial statements with management of the Comp

- Discussed with the independent auditors the matters required to be discussed by the on Auditing Standards No. 114, "The Auditor's Communications with Those Charged wit

- Received the written disclosures and the letter from the independent auditors requi by the Public Company Accounting Oversight Board Rule 3526, "Communications with Au Committees" and have discussed with the independent auditors the auditors' independ

- Based on the review and discussions above, recommended to the Board of Directors th the audited financial statements be included in the Company's Annual Report on Form the last fiscal year for filing with the Securities and Exchange Commission.

The Board of Directors has determined that the members of the Audit Committee are independent as pertinent NASDAQ rules.

Members of the Audit Committee:

J. Douglas Seidenburg
E. Ricky Gibson
Gregory H. Mitchell
Charles R. Lightsey
Michael W. Chancellor

Certain Relationships and Related Transactions

Officers, directors and 10% beneficial owners of the Company and its associates, including members of their families or corporations, partnerships, or other organizations in which such officers or directors have a controlling interest, are customers of the bank and have transactions with the banks in the ordinary course of business, and may continue to do so in the future. All outstanding loans and commitments included in such transactions were made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons, and did not involve more than normal risk of collectability or present other unfavorable features. All directors other than David E. Johnson , M. Ray (Hoppy) Cole, Jr., and Dennis Pierce are independent as defined in pertinent Nasdaq rules.

The Company entered into a construction contract with PierCon, Inc. relating to the renovation of the Company s Operations Center located at 5299 Old Hwy 11, Hattiesburg, MS. As of October 8, 2008, all amounts relating to the contract had been paid and the contract completed. The contract provided for payments to be made on a cost plus ten plus ten basis (cost plus ten percent profit plus ten percent overhead). Including change orders, overhead, profit, and sales tax, the total contract amount of $561,565.00, which represents cost plus eight percent profit plus eight percent overhead, was paid during 2008. Dennis Pierce, who serves as a Director of the Company, is President of PierCon, Inc. This transaction was reviewed and approved in advance by the Board s Audit Committee.

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Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires the Company s directors, executive officers, and beneficial owners of more than 10% to file with the Securities and Exchange Commission initial reports of ownership and reports of changes in ownership of common stock. Executive officers and directors are required by Securities and Exchange Commission Regulations to furnish the Company with copies of all Section 16(a) forms they file. To the Company s knowledge, based solely on a review of the copies of such reports furnished to the Company and written representations that no other reports were required, during the fiscal year ended December 31, 2009, all Section 16(a) filing requirements applicable to the Company s executive officers and directors were complied with.

PRINCIPAL ACCOUNTANT FEES AND SERVICES

Independent Public Accountants

T.E. Lott & Company were the independent auditors for the Company during the year ending December 31, 2009, and will serve as the independent auditors to the Company for the year ending December 31, 2010. The Company expects a representative of this firm to attend the Meeting, to have the opportunity to make a statement if they desire to do so, and to be available to respond to appropriate questions from shareholders.

Audit Fees

The following is a summary of fees related to services performed for the Company by T.E. Lott & Company for the years ended December 31, 2009 and 2008:

		200
Audit Fees - Audit of the consolidated statements and Quarterly review of financial statements included in Form 10-Q and consents		$85,
Audit Related Fees - Services in connection with application of accounting pronouncements and Sarbanes-Oxley Act		7,
Tax Services - Preparation of federal and state income tax and property returns		9,
All other fees - Assistance with and compilation of regulatory filings with Federal Reserve Bank		
	Total	**$101,**

The Audit Committee has adopted pre-approval policies and procedures, a copy of which can be found at the Company s internet website at www.thefirstbank.com under Corporate Governance . One hundred percent of the fees set forth above were preapproved by the Audit Committee. The Audit Committee has considered whether the provision of non-audit services is compatible with maintaining the principal accountant s independence.

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PROPOSAL 2 APPROVAL OF INDEPENDENT PUBLIC ACCOUNTANTS

The Board of Directors has appointed T.E. Lott & Company, a firm of independent certified public accountants, as auditors for the fiscal year ending December 31, 2009, and until their successors are selected.

The Company has been advised that neither the firm nor any of its partners has any direct or any material indirect financial interest in the securities of the Company or its subsidiaries, except as auditors and consultants on accounting procedures and tax matters. The Board anticipates that representatives of T.E. Lott & Company will be in attendance at the Annual Meeting, be present to make a statement or be available to respond to questions.

Although not required to do so, the Board of Directors has chosen to submit its appointment of T.E. Lott & Company for ratification by the Company s shareholders. It is the intention of the persons named in the Proxy to vote such Proxy FOR the ratification of this appointment. If this proposal does not pass, the Board of Directors will reconsider the matter. The proposal will be ratified if the votes cast favoring the appointment exceed the votes cast opposing it.

The Board of Directors unanimously recommends you vote FOR Proposal 2 to ratify the appointment of T.E. Lott & Company as independent public accountants for the fiscal year ending December 31, 2010.

PROPOSAL 3 ADVISORY VOTE ON EXECUTIVE COMPENSATION

The America Reinvestment and Recovery Act of 2009 (ARRA) requires recipients of funds under CCP to permit a separate shareholder vote to approve the compensation of executives, as disclosed pursuant to the compensation disclosure rules of the Securities and Exchange Commission (which disclosure shall include the compensation discussion and analysis, the compensation tables, and any related material). ARRA further provides that this shareholder vote shall not be binding on the board of directors of a recipient of funds under CCP, and may not be construed as overruling a decision by such board, nor to create or imply any additional fiduciary duty by such board, nor shall such vote be construed to restrict or limit the ability of shareholders to make proposals for inclusion in proxy materials related to executive compensation.

These ARRA provisions give you as a shareholder the right to endorse or not endorse our executive compensation through the following resolution:

> "Resolved, that the shareholders approve its executive compensation as described in the section captioned "Compensation Discussion and Analysis" in the 2010 Proxy Statement, including the compensation tables and any related material."

Under ARRA, your vote is advisory, and will not be binding on the Board. However, the Compensation Committee will take into account the vote when considering future executive compensation arrangements.

The Board of Directors unanimously recommends you vote FOR approval of the resolution.

Solicitation of Proxies

The cost of soliciting proxies from shareholders will be borne by the Company. The initial solicitation will be by mail. Thereafter, proxies may be solicited by directors, officers and employees of the Company or the bank, by means of telephone, telegraph or personal contact, but without additional compensation therefore. The Company will reimburse brokers and other persons holding shares as nominees for their reasonable expenses in sending proxy soliciting material to the beneficial owners.

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Proposals of Shareholders

Any proposal of a shareholder to be presented for action at the Annual Meeting of Shareholders to be held in the year 2011 must be received at the Company s principal executive office no later than January 27, 2011, if it is to be included in management s proxy statement. To ensure prompt receipt by the Company, the proposal should be sent certified mail, return receipt requested. Proposals must comply with the Company s bylaws relating to shareholder proposals and certain Securities and Exchange Commission Regulations in order to be included in the Company s proxy materials.

The Company s proxy for the year 2011 meeting may confer discretionary authority to vote on any proposal of a shareholder to be presented for action at the Annual Meeting of Shareholders to be held in the year 2011 which is not received prior to January 27, 2011, at the Company s principal executive office.

Annual Report

The 2009 Annual Report to shareholders of the Company, including audited financial statements of the Company, is enclosed for the information of the shareholders. The Annual Report and financial statements are not a part of the proxy soliciting material.

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PROXY SOLICITED FOR ANNUAL MEETING
OF SHAREHOLDERS OF THE FIRST BANCSHARES, INC.
TO BE HELD ON MAY 27, 2010

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS.

The undersigned hereby appoints David E. Johnson as Proxy with the power to appoint his hereby authorizes him to represent the undersigned, and to vote upon all matters that may properl the Annual Meeting including the matters described in the Proxy Statement furnished herewith, sub directions indicated herein, with full power to vote all shares of common stock of The First Banc held of record by the undersigned on April 8, 2010, at the Annual Meeting of Shareholders to be h 2010 or any adjournment(s) thereof.

IF NO DIRECTIONS ARE GIVEN, THE PROXIES WILL VOTE FOR EACH NOMINEE LISTED BELOW AND AT T THE PERSON NAMED ABOVE IN CONNECTION WITH ANY OTHER BUSINESS PROPERLY COMING BEFORE THE MEETING.

The Board of Directors recommend you vote FOR Proposals 1, 2, and 3

1. PROPOSAL 1: To elect the four (4) identified nominees as directors.

Class III

David E. Bomboy
E. Ricky Gibson
Fred A. McMurry
M. Ray (Hoppy) Cole, Jr.

( ) FOR all nominees listed (except as marked to the contrary)   ( ) WITHHOLD AUTHORITY to vote for all nominees

(INSTRUCTION: To withhold authority to vote for any individual nominee(s), write that no in the space provided below)

2. PROPOSAL 2: To approve the appointment of T.E. Lott & Company as the Independent Publ
for the Company
( ) FOR ( ) AGAINST ( ) A

3. PROPOSAL 3: To vote on advisory (non-binding) proposal to approve Executive Compensatio
( ) FOR ( ) AGAINST ( ) A

Signature: ---------------------------------------

Signature: ---------------------------------------

Dated: -------------------------, 2010

Votes must be indicated by an (x) in Black or Blue Ink.

PLEASE MARK, SIGN, DATE AND RETURN THE PROXY PROMPTLY USING THE ENCLOSED ENVELO

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Accumulated other comprehensive loss	(5,751)	(8,656)
Total stockholders' equity	1,603,162	799,125
Total liabilities and stockholders' equity	$ 3,220,162	$ 2,204,145

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

1

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

	Three months ended September 30, 2006	Three months ended September 30, 2005	Nine months ended September 30, 2006	Nine months ended September 30, 2005
Revenues				
Activity assessment	$ 163,408	$ 198,660	$ 492,383	$ 433,373
Transaction	179,979	32,633	454,139	108,392
Listing	89,019	85,428	266,255	256,888
Market data	57,510	42,989	166,115	133,429
Data processing	27,697	44,098	108,969	136,764
Regulatory	50,136	34,437	135,300	96,671
Licensing, facility and other	35,188	14,158	94,252	42,197
Total revenues	602,937	452,403	1,717,413	1,207,714
Section 31 fees	(163,408)	(198,660)	(492,383)	(433,373)
Merger expenses and related exit costs	(7,701)	-	(21,038)	-
Compensation	(130,211)	(124,831)	(436,840)	(381,845)
Liquidity payments	(66,173)	-	(159,964)	-
Routing and clearing	(20,084)	-	(49,687)	-
Systems and communications	(30,382)	(28,951)	(90,966)	(92,746)
Professional services	(28,333)	(29,275)	(85,527)	(90,326)
Depreciation and amortization	(35,120)	(25,903)	(99,360)	(78,522)
Occupancy	(22,872)	(17,649)	(62,936)	(51,588)
Marketing and other	(23,922)	(14,497)	(70,246)	(46,255)
Regulatory fine income	10,680	10,896	33,841	32,872
Operating income	85,411	23,533	182,307	65,931
Investment and other income, net	29,433	13,366	63,271	36,558
Gain on sale of equity investment	-	-	20,925	-
Income before income tax provision and minority interest	114,844	36,899	266,503	102,489
Income tax provision	(46,252)	(14,064)	(104,517)	(40,288)
Minority interest in income of consolidated subsidiary	(627)	(835)	(2,500)	(1,195)
Net income	$ 67,965	$ 22,000	$ 159,486	$ 61,006
Basic earnings per share	$ 0.43	$ 0.19	$ 1.09	$ 0.53
Diluted earnings per share	$ 0.43	$ 0.19	$ 1.08	$ 0.53
Basic weighted average shares outstanding	156,481	115,699(a)	146,645	115,699(a)
Diluted weighted average shares outstanding	157,460	115,699(a)	147,742	115,699(a)

(a) Adjusted to reflect the merger between the NYSE and Archipelago, which was completed March 7, 2006, 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.

2

NYSE GROUP, INC.
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY FOR THE NINE MONTHS ENDED SEPTEMBER 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	-	640	7	-	62,726	-	-	62,733
Net income for the period from March 8 to September 30, 2006	-	-	-	-	-	130,847	1,630	132,477
Balance as of September 30, 2006	$ -	157,787	$ 1,578	$ (65,569)	$ 1,542,057	$ 130,847	$ (5,751)	$ 1,603,162

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)

	Nine months ended September 30, 2006	2005
Cash flows from operating activities:		
Net income	$ 159,486	$ 61,006
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	99,360	78,522
Minority interest	2,928	1,405
Deferred income taxes	6,887	(9,952)
Provision for losses on accounts receivable	2,596	(879)
Stock based compensation	46,135	-
Gain on sale of equity investment	(20,925)	-
Other non-cash items	1,792	8,642
Change in operating assets and liabilities:		
Accounts receivable, net	(22,218)	(61,686)
Other assets	(20,894)	(3,867)
Accounts payable, accrued expenses and Section 31 fees	(303,635)	(51,568)
Deferred revenue	57,180	58,903
Accrued employee benefits	9,265	10,886
Net cash provided by operating activities	17,957	91,412
Cash flows from investing activities:		
Cash acquired in Archipelago merger	218,201	-
Other sales (purchases) of equity investments and businesses	14,616	(10)
Sales of investment securities	9,853,747	5,633,418
Purchases of investment securities	(9,392,296)	(5,626,273)
Net sales of securities purchased under agreements to resell	63,288	11,778
Purchases of property and equipment	(68,391)	(75,759)
Net cash provided by (used in) investing activities	689,165	(56,846)
Cash flows from financing activities:		
Distribution to former Members	(409,800)	-
Dividend to former Members	(96,400)	-
Employee stock transactions	16,723	-
Principal payment of capital lease obligations	(5,533)	(4,013)
Net cash used in financing activities	(495,010)	(4,013)
Net increase in cash and cash equivalents for the period	212,112	30,553
Cash and cash equivalents at beginning of period	43,492	15,456
Cash and cash equivalents at end of period	$ 255,604	$ 46,009
Supplemental disclosures:		
Cash paid for income taxes	$ 85,915	$ 32,497
Cash paid for interest	$ 1,798	$ 3,788
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, Inc. 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.

As of September 30, 2006, the NYSE owned two-thirds of the Securities Industry Automation Corporation (“SIAC”) and reported 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.

NYSE Regulation provides regulatory services (including member firm regulation, market surveillance, enforcement, listed company compliance, and arbitration), to the NYSE and to NYSE Arca.

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 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 nine months ended September 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 were 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 the 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

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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	(5,919)
Goodwill	530,290
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 nine months ended September 30, 2006, NYSE Group recorded a $6.1 million charge due to 80 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 nine months ended September 30, 2006 and the remaining accrual at September 30, 2006 (in thousands):

Balance at December 31, 2005	$ 3,804
Additional severance	6,150
Amount paid in 2006	(5,871)
Balance at September 30, 2006	$ 4,083

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

On November 8, 2006, NYSE Group announced a workforce reduction of more than 500 positions, including approximately 400 employees and 120 full-time consultants. As a result of this workforce reduction, NYSE Group expects to recognize a restructuring charge in the fourth quarter of 2006 of approximately $28.0 million consisting primarily of severance payments and curtailment losses.

PCX Holdings, Inc. and Wave Securities, LLC.

On September 26, 2005, Archipelago completed its acquisition of PCX Holdings ("PCX"), which is now known as NYSE Arca, Inc., 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 merger between Archipelago and the NYSE had been completed at the beginning of the earliest period presented (in thousands, except per share data):

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	Three months ended September 30, 2006	Three months ended September 30, 2005	Nine months ended September 30, 2006	Nine months ended September 30, 2005
Revenues	$ 602,937	$ 624,795	$ 1,861,397	$ 1,727,054
Net income	68,254	29,605	195,118	84,814
Basic earnings per share	$ 0.44	$ 0.18	$ 1.24	$ 0.53
Diluted earnings per share	$ 0.43	$ 0.18	$ 1.23	$ 0.52

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

Other Transactions

On July 17, 2006, NYSE Group acquired MatchPoint Trading, Inc. ("MatchPoint"), a financial services technology company specializing in call market trading and technologies. MatchPoint has developed a proprietary electronic equity crossing system that matches aggregated orders at predetermined and distinct times, at prices that are derived from the primary market for securities (NYSE, AMEX and Nasdaq), enabling MatchPoint technology to operate multiple matches each with a unique benchmark pricing model. MatchPoint can also process internal crosses for single participants and seamlessly enables residuals to participate in scheduled crossing sessions.

On September 18, 2006, NYSE Group announced that it had acquired an equity stake in Marco Polo Network Inc. ("Marco Polo"). Through its local exchange and brokerage relationships, Marco Polo offers intra-market connectivity and routing to brokers and exchanges in more than 40 emerging markets. Together, these markets provide investors with access to more than 90% of the MSCI emerging markets index.

Note 4 - Merger with Euronext N.V.

On May 22, 2006, NYSE Group proposed a business combination with Euronext which if successful will 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.

Pursuant to the combination agreement, NYSE Group and Euronext intend to 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, Euronext shareholders will have the right to exchange each of their Euronext shares for €21.32 in cash and 0.98 of a share of NYSE Euronext common stock. Instead of receiving this standard offer consideration, Euronext shareholders will have the opportunity to make either a cash election to receive all cash for their Euronext shares, or a stock election to receive all stock for their Euronext 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, the surviving corporation 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 successful completion of the exchange offer and the combination, NYSE Euronext intends to effectuate a post-closing reorganization of Euronext and its subsidiaries that is intended to result in Euronext becoming a wholly owned subsidiary of NYSE Euronext. In the post-closing reorganization, Euronext shareholders who did not exchange their Euronext shares in the exchange offer will generally receive the same consideration that they would have received had they tendered their Euronext shares in the exchange offer and not made either the cash election or the stock election: that is €21.32 in cash and 0.98 of a share of NYSE Euronext common stock per Euronext share.

Note 5 - Segment Information

Subsequent to the merger between the NYSE and 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, Inc.; (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 to 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 applied to members and member organizations.

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

Three months ended September 30,	**Market**	**SIAC Services**	**Regulation**	**Corporate Items and Eliminations**	**Consolidated**
2006					
Revenues	$ 553,509	$ 79,192	$ 79,491	$ (109,255)	$ 602,937
Operating income (loss)	74,241	(12,386)	23,556	-	85,411
2005					
Revenues	$ 402,008	$ 105,628	$ 62,674	$ (117,907)	$ 452,403
Operating income	12,467	625	10,441	-	23,533

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Nine months ended September 30,	Market	SIAC Services	Regulation	Corporate Items and Eliminations	Consolidated
2006					
Revenues	$ 1,572,601	$ 272,247	$ 231,996	$ (359,431)	$ 1,717,413
Operating income (loss)	155,497	(23,138)	49,948	-	182,307
2005					
Revenues	$ 1,062,063	$ 326,181	$ 180,963	$ (361,493)	$ 1,207,714
Operating income (loss)	39,917	(700)	26,714	-	65,931

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 nine months ended September 30, 2006, SIAC incurred $2.0 million and $17.6 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 customers.

Note 6 - Goodwill and Other Intangible Assets

The following table presents the details of the intangible assets and goodwill acquired by reportable segment (dollars 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	$ 535,790					

Amortization expense for the intangible assets was approximately $0.9 million and $2.1 million for the three and nine months ended September 30, 2006, respectively.

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

Year ending December 31,	
2006 (period from October 1 to December 31, 2006)	$ 919
2007	3,675
2008	3,675
2009	3,675
2010	3,675
Thereafter	55,738
Total	$ 71,357

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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 September 30, 2006, employees of NYSE Group held approximately 1.8 million stock options with a weighted average exercise price of $14.15 (1.4 million of which were exercisable at a weighted average exercise price of $14.42) and 1.4 million (including 0.6 million vested units) restricted stock units. As of September 30, 2006, the total aggregate intrinsic value of stock options outstanding and exercisable was $107.9 million and $83.5 million, respectively.

For the three and nine months ended September 30, 2006, NYSE Group recorded $5.6 million and $46.1 million, respectively, of stock based compensation included in compensation in the condensed consolidated statements of income. As of September 30, 2006, there was approximately $18.3 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.

As a result of the merger between the NYSE and Archipelago, 2.6 million Archipelago stock options converted to NYSE Group awards. Both the vested and unvested stock options issued by NYSE Group in exchange for equivalent options of Archipelago were included in the purchase price of Archipelago and recorded at their fair value on the measurement date. Because continued service is required after the date of consummation in order to vest in the unvested awards, a portion of the value of those awards is recognized over the remaining vesting period.

The fair value of each option grant was estimated using the Black-Scholes option pricing model with the following assumptions: expected volatility of 30%, risk-free interest of 4.8%, expected life of 7 years and no dividend yield.

A summary of the stock option activity under the Plan is as follows (number of stock options in thousands):

	Stock Options	
	Shares	**Weighted Average Exercise Price**
Outstanding at beginning of year	-	-
Awards converted from Archipelago	2,550	$ 13.53
Awards granted	-	-
Awards exercised	(769)	$ 12.00

Awards expired/cancelled	-		-
Outstanding at end of period	1,781	$	14.15

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Additional information regarding stock options outstanding as of September 30, 2006 is as follows (number of stock options in thousands):

	Outstanding			Exercisable	
Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$4.91	42	6.86	$ 4.91	42	$ 4.91
$6.26	46	6.86	6.26	38	6.26
$11.50	532	7.87	11.50	373	11.50
$13.41	696	7.13	13.41	515	13.41
$19.30	167	8.46	19.30	119	19.30
$20.25	298	3.90	20.25	298	20.25
	1,781	6.92	$ 14.15	1,384	$ 14.42

A summary of the restricted stock unit activity under the Plan is as follows (number of restricted stock units in thousands):

	Number of RSUs
Outstanding at beginning of year	-
Awards converted from Archipelago	125
Awards granted	1,207
Vested	(630)
Outstanding at end of period	702
Weighted average fair value per share for RSUs granted during period	$ 64.50

Note 8 - Retirement Benefits

Effective March 31, 2006, the future benefit accrual of all active participants in the pension and supplemental executive retirement plans (“SERP”) plans was 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 and nine months ended September 30, 2006 was $3.1 million and $5.9 million, respectively.

The 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 Plans Cost							
	Three months ended September 30,				Nine months ended September 30,			
	2006		2005		2006		2005	
	NYSE	SIAC	NYSE	SIAC	NYSE	SIAC	NYSE	SIAC
Cost of benefits earned	$ -	$ (151)	$ 3,472	$ 2,897	$ 2,643	$ 2,344	$ 10,416	$ 8,692
Interest on benefits earned	5,545	3,071	5,589	3,508	16,524	9,003	16,767	10,525
Net amortizations	-	(113)	280	44	39	195	841	131
Estimated return on plan assets	(8,114)	(4,739)	(7,412)	(4,237)	(24,000)	(13,237)	(22,238)	(12,710)
Recognized actuarial (gain) or loss	-	-	-	753	-	-	-	2,259
Curtailment charge	-	-	-	-	1,125	-	-	-
Aggregate pension (benefit) expense	$ (2,569)	$ (1,932)	$ 1,929	$ 2,965	$ (3,669)	$ (1,695)	$ 5,786	$ 8,897

	SERP Plans Cost							
	Three months ended September 30,				Nine months ended September 30,			
	2006		2005		2006		2005	
	NYSE	SIAC	NYSE	SIAC	NYSE	SIAC	NYSE	SIAC
Cost of benefits earned	$ -	$ -	$ 515	$ 231	$ 540	$ 188	$ 1,547	$ 692
Interest on benefits earned	718	378	933	401	2,268	1,136	2,799	1,204
Net amortizations	123	27	384	201	222	80	1,150	603
Aggregate SERP expense	$ 841	$ 405	$ 1,832	$ 833	$ 3,030	$ 1,404	$ 5,496	$ 2,499

In addition to providing pension benefits, the NYSE and SIAC maintain defined benefit plans to provide certain health care and life insurance benefits for eligible retired employees. During 2005, the NYSE and SIAC announced changes to the post retirement plans, including the underlying plan design and contribution strategy. Such changes were effective as of March 31, 2006. The following are the plans' amounts recognized during the respective periods (in thousands):

	Post Retirement Plans Cost							
	Three months ended September 30,				Nine months ended September 30,			
	2006		2005		2006		2005	
	NYSE	SIAC	NYSE	SIAC	NYSE	SIAC	NYSE	SIAC
Cost of benefits earned	$ 1,194	$ 210	$ 1,137	$ 667	$ 3,576	$ 1,293	$ 3,411	$ 2,001
Interest on benefits earned	1,953	745	1,750	888	6,105	2,506	5,251	2,663
Curtailment gain	-	(33)	-	-	-	(33)	-	-
Net amortizations	(67)	(62)	(61)	390	79	595	(182)	1,169
Aggregate post retirement expense	$ 3,080	$ 860	$ 2,826	$ 1,945	$ 9,760	$ 4,361	$ 8,480	$ 5,833

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 nine months ended September 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 the NYSE and Archipelago. As of September 30, 2006, NYSE Group owns 50% of the outstanding preferred stock of DTCC.

During the third quarter of 2006, NYSE Group recorded a $7.2 million (net of minority interest of $3.6 million) gain for a one-time payment received from certain DTCC subsidiaries in connection with the termination of their service agreement with SIAC.

SIAC performs services for AMEX, which was a one-third owner of SIAC as of September 30, 2006.

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

	Three months ended September 30,		Nine months ended September 30,	
	2006	**2005**	**2006**	**2005**
AMEX	$ 12,583	$ 17,451	$ 43,100	$ 53,315
DTCC	5	7,417	10,348	24,610

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

On November 1, 2006, NYSE Group completed the purchase of the one-third ownership stake in SIAC previously held by AMEX for approximately $40.3 million, as a result of which, NYSE Group now fully owns SIAC. In connection with the purchase, the SIAC shareholders' agreement and AMEX's participation in the SIAC facilities management agreement (under which SIAC had previously provided technology services to the NYSE and AMEX) were terminated and SIAC agreed to provide substantially reduced services to AMEX, as a customer, under a new services agreement.

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 September 30, 2006	Three months ended September 30, 2005	Nine months ended September 30, 2006	Nine months ended September 30, 2005
Net income for basic and diluted earnings per share	$ 67,965	$ 22,000	$ 159,486	$ 61,006
Shares of common and common stock equivalents:				
Weighted average shares used in basic computation	156,481	115,699	146,645	115,699
Dilutive effect of:				
Employee stock options and restricted stock units	979	-	1,097	-
Weighted average shares used in diluted computation	157,460	115,699	147,742	115,699
Basic earnings per share	$ 0.43	$ 0.19	$ 1.09	$ 0.53
Diluted earnings per share	$ 0.43	$ 0.19	$ 1.08	$ 0.53

As of September 30, 2006, 1.4 million restricted stock units and options to purchase 1.8 million shares of common stock were outstanding. For the three and nine months ended September 30, 2005, there were no options or restricted stock units outstanding. There were no securities excluded from the computation of diluted earnings per share for the three and nine months ended September 30, 2006 because all outstanding options and restricted stock were considered dilutive.

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 filed for the year ended December 31, 2005, as updated by Part II, Item 1 of our quarterly reports on Form 10-Q for the periods ended March 31, 2006 and June 30, 2006. The following should be read in conjunction with these financial statements.

In re NYSE Specialists Securities Litigation

Briefing on plaintiffs' appeal to the U.S. Court of Appeals for the Second Circuit from the final judgment in favor of the NYSE was completed on September 18, 2006.

Grasso Litigation

Mr. Grasso filed an appeal of the New York Supreme Court's August 8, 2006 decision 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 would commence trial of that claim on October 16, 2006. On September 14, 2006, the appellate court entered an order staying the trial until the appeals of that decision, and of the earlier decision denying Mr. Grasso's motion to dismiss, have been decided.

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On August 23, 2006, the New York Supreme Court granted Mr. McCall's motion for summary judgment dismissing the third-party claims asserted against him by Mr. Grasso. Mr. Grasso filed an appeal of that decision.

On September 7, 2006, Mr. Grasso filed a motion seeking reassignment of the case to a different judge for all further proceedings, and, on September 14, 2006, the New York Supreme Court denied that motion. Mr. Grasso filed an appeal of that decision.

On October 4, 2006, Mr. Grasso filed a motion for leave to amend his crossclaims to add causes of action against the NYSE for termination payments under his 1999 and 2003 employment agreements based upon an allegation that he resigned (including for "Good Reason"). After the NYSE opposed the motion, Mr. Grasso withdrew it.

On October 18, 2006, the appellate court heard oral argument on Mr. Langone's appeal of the denial of his motion for summary judgment on the single cause of action asserted against him by the New York Attorney General.

On October 19, 2006, the New York Supreme Court entered an order granting the motions for summary judgment filed by the NYSE and Mr. Reed and dismissed all of the crossclaims asserted by Mr. Grasso against the NYSE and Mr. Reed. The court granted in part Mr. Grasso's and Mr. Langone's motions for summary judgment with respect to the New York Attorney General's claim against the NYSE, dismissing that claim to the extent it sought injunctive relief but denying the request to dismiss the claim to the extent it seeks declaratory relief. Among other rulings in the decision, the court granted in part the New York Attorney General's motion for partial summary judgment against Mr. Grasso, finding that Mr. Grasso breached his fiduciary duties to the NYSE and that certain payments made to Mr. Grasso were unlawful and must be returned to the NYSE, and ordered the New York Attorney General to provide an accounting within 30 days of the court's decision. On November 2, 2006, the New York Attorney General filed an accounting stating that Mr. Grasso must disgorge approximately $112.2 million; Mr. Grasso has until December 4, 2006 to file any objections to the accounting. Mr. Grasso filed an appeal of the court's decision, and also has indicated that he intends to seek an order from the appellate court staying the trial court from conducting any accounting of amounts allegedly owed.

At December 31, 2003, the NYSE accrued compensation expense amounting to $36.0 million related to Mr. Grasso. This accrual, which remains current, reflects management's interpretation of the provisions contained in the most recent employment agreement, which provides terms outlining certain payments to which Mr. Grasso could be entitled upon ceasing employment with the NYSE, if that agreement is found to be valid and the payments were deemed to be allowable and appropriate under the law.

NYSE/Archipelago Merger-Related Litigation

On November 8, 2006, the court heard oral argument on the motion by the NYSE and Mr. Thain to dismiss the Hyman and Lief amended complaints and the Rittmaster complaint, and reserved decision on the motion.

Other Matters

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 September 30,		Nine months ended September 30,	
	2006	2005	2006	2005
Net income	$ 67,965	$ 22,000	$ 159,486	$ 61,006
Unrealized gains (losses) on available-for-sale securities	2,998	390	2,905	(3,230)
Total comprehensive income	$ 70,963	$ 22,390	$ 162,391	$ 57,776

Note 13 - Deferred Revenue

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

	September 30, 2006	December 31, 2005
Listing fees - original	$ 405,344	$ 414,887
Listing fees - annual	66,677	-
Registered representative and maintenance fees	4,440	10,180
License fees	12,264	100
Other	6,566	9,343
Total deferred revenue	$ 495,291	$ 434,510
Less: current portion	$ 174,320	$ 105,313
Long-term portion	$ 320,971	$ 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):

	September 30, 2006	December 31, 2005
Market	$ 164,472	$ 85,960
Regulation	4,785	13,839
SIAC	5,063	5,514
Total	$ 174,320	$ 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 be less than the greater of $250,000 or 2% of the aggregate debit items arising from customer transactions.

As of September 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	$	17,610
ATSI		7,883
Net capital in excess of required net capital:		
ARCAS	$	17,360
ATSI		7,764
Ratio of aggregate indebtedness to net capital:		
ARCAS		N/A
ATSI		0.15 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 September 30, 2006, these subsidiaries had met their capital adequacy requirements.

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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 the 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 NYSE and Archipelago.

NYSE Group is a holding company that, through its subsidiaries, operates two securities exchanges: the NYSE and NYSE Arca, Inc. NYSE Group is a leading provider of securities listing, trading and market data products and services. 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 ETFs and exchange-listed securities. NYSE Arca, Inc. is also an exchange for trading equity options.

As of September 30, 2006, the NYSE owned two-thirds of the SIAC and reported SIAC’s financial results on a consolidated basis. SIAC is an important industry resource providing critical automation and communications services to the NYSE, 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, to subscribers primarily in the securities industry.

NYSE Regulation provides regulatory services (including member firm regulation, market surveillance, enforcement, listed company compliance, and arbitration), to the NYSE and to NYSE Arca.

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.

Also 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, were converted into options to purchase an equivalent number of shares of NYSE Group common stock; and (iii) all outstanding restricted stock units of Archipelago were 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 at the closing of the merger, or approximately 46.0 million shares.

As a result of the merger between the NYSE and Archipelago, NYSE Group expects 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, if successful, will 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.

Pursuant to the combination agreement, NYSE Group and Euronext intend to 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, Euronext shareholders will have the right to exchange each of their Euronext shares for €21.32 in cash and 0.98 of a share of NYSE Euronext common stock. Instead of receiving this standard offer consideration, Euronext shareholders will have an opportunity to make either a cash election to receive all cash for their Euronext shares, or a stock election to receive all stock for their Euronext 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, the surviving corporation 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 successful completion of the exchange offer and the merger, NYSE Euronext intends to effectuate a post-closing reorganization of Euronext and its subsidiaries that is intended to result in Euronext becoming a wholly owned subsidiary of NYSE Euronext. In the post-closing reorganization, Euronext shareholders who did not exchange their Euronext shares in the exchange offer will generally receive the same consideration that they would have received had they tendered their Euronext shares in the exchange offer and not made either the cash election or the stock election: that is, €21.32 in cash and 0.98 of a share of NYSE Euronext common stock per Euronext share.

Purchase of Minority Interest in SIAC

On November 1, 2006, NYSE Group completed the purchase of the one-third ownership stake in SIAC previously held by AMEX for approximately $40.3 million, as a result of which, NYSE Group now fully owns SIAC. In connection with the purchase, the SIAC shareholders' agreement and the AMEX’s participation in the SIAC facilities management agreement (under which SIAC had previously provided technology services to the NYSE and AMEX) were terminated, and SIAC agreed to provide substantially reduced services to AMEX, as a customer, under a new services agreement.

MatchPoint

On July 17, 2006, NYSE Group acquired MatchPoint, a financial services technology company specializing in call market trading and technologies. MatchPoint has developed a proprietary electronic equity crossing system that matches aggregated orders at predetermined and distinct times, at prices that are derived from the primary market for securities (NYSE, AMEX and Nasdaq), enabling MatchPoint technology to operate multiple matches each with a unique benchmark pricing model. MatchPoint can also process internal crosses for single participants and seamlessly enables residuals to participate in scheduled crossing sessions. It is anticipated that MatchPoint's expansive and innovative trading technology will enhance the suite of crossing services provided by the NYSE in the first quarter of 2007.

Marco Polo

On September 18, 2006, NYSE Group announced that it had acquired an equity stake in Marco Polo. Through its local exchange and brokerage relationships, Marco Polo offers intra-market connectivity and routing to brokers and exchanges in more than 40 emerging markets. Together, these markets provide investors with access to more than 90% of the MSCI emerging markets index.

Trade Reporting Facility

On October 13, 2006, NYSE Group announced that it had entered into discussions with NASD to create a trade reporting facility serving NYSE Group customers reporting off-exchange trades in all listed national market system stocks. NYSE Group's trade reporting facility, which is expected to be launched in early 2007, will conform to the SEC's recent approval of NASD's new trade reporting arrangement. It is anticipated that NYSE Group's trade reporting facility will enhance the range of trading products and services provided by NYSE Group to its customers by offering a reliable and competitively priced venue to report internally executed transactions.

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, Inc., (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 upon members and member organizations.

Operating Data

NYSE Group revenues are affected by many factors, including the number of companies listed on the NYSE and NYSE Arca, Inc. (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 September 30,		Nine months ended September 30,	
	2006	2005	2006	2005
NYSE Company listings [(1)]**:**				
NYSE listed issuers [(2)]	2,704	2,639	2,704	2,639
Number of new issuer listings [(3)]	29	35	82	108
NYSE Listed Issues [(4)]:				
NYSE Group Matched Volume [(5)]	108,826	100,820	344,061	304,779
NYSE Group Handled Volume [(6)]	111,584	102,543	351,297	309,549
Total NYSE Listed Consolidated Volume	154,161	128,248	467,454	381,186
NYSE Group Share of Total Consolidated Volume:				
Matched Volume [(5)]	70.6%	78.6%	73.6%	80.0%
Handled Volume [(6)]	72.4%	80.0%	75.2%	81.2%
NYSE Arca and AMEX Listed Issues:				
NYSE Group Matched Volume [(5)]	6,873	5,083	20,731	13,423
NYSE Group Handled Volume [(6)]	7,939	5,906	23,925	15,468
Total NYSE Arca and AMEX Listed Consolidated Volume	20,663	18,076	67,883	50,340
NYSE Group Share of Total Consolidated Volume:				
Matched Volume [(5)]	33.3%	28.1%	30.5%	26.7%
Handled Volume [(6)]	38.4%	32.7%	35.2%	30.7%
Nasdaq Listed Issues:				
NYSE Group Matched Volume [(5)]	24,700	19,115	76,781	62,572
NYSE Group Handled Volume [(6)]	30,022	23,958	94,068	78,618
Total Nasdaq Listed Consolidated Volume	117,785	104,898	383,437	339,162
NYSE Group Share of Total Consolidated Volume:				
Matched Volume [(5)]	21.0%	18.2%	20.0%	18.4%
Handled Volume [(6)]	25.5%	22.8%	24.5%	23.2%
Exchange-Traded Funds [(4),(7)]:				
NYSE Group Matched Volume [(5)]	9,663	6,041	29,294	16,807
NYSE Group Handled Volume [(6)]	10,794	6,816	32,617	18,824
Total ETF Consolidated Volume	24,819	17,743	75,779	52,579
NYSE Group Share of Total Consolidated Volume:				
Matched Volume [(5)]	38.9%	34.0%	38.7%	32.0%
Handled Volume [(6)]	43.5%	38.4%	43.0%	35.8%
Equity Options [(8)]:				
NYSE Group Options Contracts	44.0	32.0	136.7	98.3
Total Consolidated Options Contracts	429.4	333.0	1,345.8	966.7
NYSE Group Share of Total	10.3%	9.6%	10.2%	10.2%
Market Information [(9)] **:**				
Tape A share of trades (%)	82.0%	89.8%	85.0%	91.1%
Tape B share of trades (%)	35.2%	47.4%	37.2%	47.9%
Tape C share of trades and shares (%)	24.5%	21.3%	23.5%	21.1%
Professional subscribers	417,642	415,138	417,642	415,138
Regulatory Fees:				
Gross FOCUS revenues ($ billions) [(10)]	77.6	49.2	204.8	134.0
Data Processing Fees:				

% SIAC revenues from customers other than NYSE	35.7%	43.6%	42.3%	43.2%
Operating Expenses:				
Headcount (including SIAC employees)	2,914	3,389	2,914	3,389

(1) Number does not include issuers listed on NYSE Arca, Inc. There were 12 operating companies exclusively listed on NYSE Arca, Inc. as of September 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 all NYSE Group 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 the 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 the 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 the 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 fees to the SEC pursuant to Section 31 of the Securities Exchange Act of 1934. 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, Inc., 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

Prior to August 1, 2006, on the NYSE, trading fees were paid by member organizations based on their trading activity. Fees were assessed on a per share basis for trading in equity securities. The fees applied to all transactions that took place on the NYSE, and the fee amounts varied, based on the size and type of trade consummated. There was no fee for small electronic trades. All members and member organizations paid trading fees except those “$2 brokers” who effect transactions only for other member organizations and specialists. There were two caps that applied to the trading fees (other than fees for

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trading ETFs), and member organizations paid the lesser of these two fee caps on a monthly basis. The first cap was a maximum fixed dollar amount of $600,000 per month. The second was a variable cap equal to 2% of the net commissions that a member organization earned on the trades it executed on the trading floor. As a result of these caps, prior to August 1, 2006, fluctuations in trading volumes, regardless of direction or magnitude, did 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 traded options which became effective August 1, 2006. The new pricing includes, but is not limited to, the following changes:

· Transaction fees on NYSE-listed equities are based on a fixed rate of $0.00025 per share rather than the former variable fee schedule.

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

· The 2% commission cap for NYSE-listed trading on the NYSE was eliminated.

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

· Specialists do not incur transaction fees for trading ETFs.

The pricing structures of the NYSE and NYSE Arca continue to undergo a fundamental examination as part of a broad strategic review of the 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, Inc., 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, Inc. 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, Inc., 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's core business 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 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 regulation fees and market surveillance fees collected by NYSE Group. Member regulation fees are based on member organizations' gross FOCUS revenues, that is, revenues generated by member broker-dealers and reported on a six-month lag basis—as well as on the number of branch offices of member broker-dealers, and the number of registered representatives. 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 applications, registration of branch offices 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 "Sources of Revenues—Activity Assessment" above.

Merger Expenses and Related Exit Costs

Merger expenses and related exit costs consist of severance costs, legal, printing and accounting fees incurred in connection with the May 2006 selling shareholder offering of our common stock, and professional fees and other expenses directly attributable either to the merger between the NYSE and Archipelago or the proposed combination with NYSE Group and Euronext.

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, we cannot assure you 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 issuer and member organization compliance with applicable law and the rules of the exchanges. We expect that NYSE Regulation will continue to levy fines for regulatory purposes as appropriate. The frequency in 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 of the NYSE and Archipelago 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 September 30, 2006 Versus Three Months Ended September 30, 2005

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

	Three months ended September 30,		
Dollars (in Millions)	**2006**	**2005**	**Percent Increase (Decrease)**
Revenues			
Activity assessment	$ 163.4	$ 198.7	(17.8)%
Transaction	180.0	32.6	452.1%
Listing	89.0	85.4	4.2%
Market data	57.5	43.0	33.7%
Data processing	27.7	44.1	(37.2)%
Regulatory	50.1	34.4	45.6%
Licensing, facility and other	35.2	14.2	147.9%
Total revenues	602.9	452.4	33.3%
Section 31 fees	(163.4)	(198.7)	(17.8)%
Merger expenses and related exit costs	(7.7)	-	100.0%
Compensation	(130.2)	(124.8)	4.3%
Liquidity payments	(66.2)	-	100.0%
Routing and clearing	(20.1)	-	100.0%
Systems and communications	(30.4)	(29.0)	4.8%
Professional services	(28.3)	(29.3)	(3.4)%
Depreciation and amortization	(35.1)	(25.9)	35.5%
Occupancy	(22.9)	(17.6)	30.1%
Marketing and other	(23.9)	(14.5)	64.8%
Regulatory fine income	10.7	10.9	(1.8)%
Operating income	85.4	23.5	263.4%
Investment and other income, net	29.4	13.4	119.4%
Income before taxes and minority interest	114.8	36.9	211.1%
Provision for income taxes	(46.2)	(14.1)	227.7%
Minority interest in income of consolidated subsidiary	(0.6)	(0.8)	(25.0)%
Net income	$ 68.0	$ 22.0	209.1%

Consolidated Results

For the three months ended September 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 September 30, 2006, NYSE Group reported revenues (excluding activity assessment fees), operating income and net income of $439.5 million, $85.4 million and $68.0 million, respectively. This compares to revenues (excluding activity assessment fees), operating income and net income of $253.7 million, $23.5 million and $22.0 million, respectively, for the three months ended September 30, 2005.

The $185.8 million increase in revenues (excluding activity assessment fees), $61.9 million increase in operating income and $46.0 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 September 30, 2006 and contributed revenues of $165.3 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 $61.9 million was the result of NYSE Arca's contribution to operating income of $35.9 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 $46.0 million including $23.1 million related to NYSE Arca, revenue growth and overall operating efficiencies.

Segment Results

Subsequent to the merger between the NYSE and 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, Inc., (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 upon members and member organizations.

Market Segment Results - Revenues

	Three months ended September 30,		
Dollars (in Millions)	**2006**	**2005**	**Percent Increase (Decrease)**
Activity assessment	$ 163.4	$ 198.7	(17.8)%
Transaction	180.0	32.6	452.1%
Listing	89.0	85.4	4.2%
Market data	57.5	43.0	33.7%
Market services provided to Regulation	28.4	28.1	1.1%
Licensing, facility and other	35.2	14.2	147.9%
Total revenues	$ 553.5	$ 402.0	37.7%

Transaction - For the three months ended September 30, 2006, compared to the three months ended September 30, 2005, transaction fees increased by $147.4 million, or 452.1%, primarily as a result of NYSE Arca's contribution since the completion of the merger with Archipelago on March 7, 2006.

Listing - The following table sets forth the revenues from listing fees calculated in accordance with U.S. generally accepted accounting principles ("as reported") and as would be reported on a basis without giving effect to U.S.

generally accepted accounting principles (“billed basis”). NYSE Group believes that the presentation of billed basis revenues, as they relate to original fees, is a good indicator of current listing fee activity as billed basis information excludes the effects of recognizing revenues related to original fees over periods ranging from 5 to 10 years.

	Three months ended September 30,					
Dollars (in Millions)	**2006**		**2005**		**Percent Increase (Decrease)**	
	As reported	**As billed**	**As reported**	**As billed**	**As reported**	**As billed**
Annual fees	$ 66.4	$ 66.4	$ 62.6	$ 62.6	6.1%	6.1%
Original fees	22.6	17.5	22.8	21.5	0.8%	(18.6)%
	$ 89.0	$ 83.9	$ 85.4	$ 84.1	4.2%	(0.2)%

For the three months ended September 30, 2006, compared to the three months ended September 30, 2005, listing fee revenue increased $3.6 million, or 4.2%, on an as reported basis.

Listing fees are primarily derived from annual listing fees and original listing fees. Original listing fees are deferred and recognized over the estimated service periods ranging from 5 to 10 years. The difference between the as reported revenues and the billed basis revenues is due to the amortization of listing fees in accordance with U.S. generally accepted accounting principles.

Annual listing fees totaled $66.4 million on both an as reported and billed basis for the three months ended September 30, 2006, compared with $62.6 million on both an as reported and billed basis for the three months ended September 30, 2005, an increase of 6.1%. The period over period improvement is due to the increase in aggregate shares billed at the beginning of the year, from approximately 387 billion to 408 billion, as well as new listings of shares during the year, which generate annual fees for the period of the year listed. Annual listing fees are recognized on a pro-rata basis over the calendar year.

Original listing fees amounted to $22.6 million on an as reported basis. On a billed basis, original listing fees totaled $17.5 million for the three months ended September 30, 2006, a decrease of $4.0 million, or 18.6%, compared to the as billed original listing fees for the three months ended September 30, 2005, primarily due to a change in pricing and a reduction of corporate actions period over period.

Market Data - For the three months ended September 30, 2006, compared to the three months ended September 30, 2005, market data fees increased $14.5 million, or 33.7%, primarily from the contribution of NYSE Arca’s operations, following the completion of the merger between the NYSE and Archipelago on March 7, 2006.

Market services provided to Regulation - For the three months ended September 30, 2006, compared to the three months ended September 30, 2005, market services provided to Regulation increased $0.3 million, or 1.1%. These services, which include costs associated with supporting IT infrastructure, finance, human resources and other administrative functions, are provided by Market to support the operations of Regulation.

Licensing, facility and other - For the three months ended September 30, 2006, compared to the three months ended September 30, 2005, licensing and facility fees increased $21.0 million, or 147.9%. License fees represented $15.7 million of the increase. Also driving the increase was the new pricing for certain facility charges implemented in January 2006. NYSE Group did not generate licensing fees in the same period a year ago.

SIAC Services Segment Results - Revenue

Dollars (in Millions)	Three months ended September 30, 2006		Three months ended September 30, 2005		Percent Increase (Decrease)
Data processing - non- NYSE	$	27.7	$	44.1	(37.2)%
Data processing - NYSE		51.5		61.5	(16.3)%
Total revenues	$	79.2	$	105.6	(25.0)%

Data Processing Fees—Non-NYSE. For the three months ended September 30, 2006, compared to the three months ended September 30, 2005, data processing fees decreased $16.4 million, or 37.2%, to $27.7 million. The decline is due to the continued reduction in services provided to SIAC's major customers and lower revenues from the communication services of Sector.

Data Processing Fees—NYSE. For the three months ended September 30, 2006, compared to the three months ended September 30, 2005, data processing fees decreased $10.0 million, or 16.3%, to $51.5 million. These fees decreased due to cost reduction initiatives.

Regulation Segment Results - Revenues

Dollars (in Millions)	Three months ended September 30, 2006		Three months ended September 30, 2005		Percent Increase (Decrease)
Regulatory	$	50.1	$	34.4	45.6%
Regulatory services provided to Market		29.4		28.2	4.3%
Total revenues	$	79.5	$	62.6	27.0%

Regulatory Fees - For the three months ended September 30, 2006, compared to the three months ended September 30, 2005, regulatory fees increased $15.7 million, or 45.6%, to $50.1 million. For the three months ended September 30, 2006, NYSE Arca contributed regulatory fees of $3.0 million. The remaining $12.7 million increase was due to higher reported Gross FOCUS revenues ($77.6 billion compared to $49.2 billion period over period).

Regulatory services provided to Market - For the three months ended September 30, 2006, compared to the three months ended September 30, 2005, regulatory services provided to Market increased $1.2 million or 4.3%. These services, which include costs associated with surveillance, examination and enforcement with respect to Market activities, and overseeing compliance by listed companies, are provided by Regulation. The increase primarily reflects increased compensation costs for cash awards granted to Regulation employees following the merger between the NYSE and Archipelago.

Market Segment Results - Expenses

Dollars (in Millions)	**Three months ended September 30, 2006**	**2005**	**Percent Increase (Decrease)**
Section 31 fees	$ 163.4	$ 198.7	(17.8)%
Merger expenses and related exit costs	2.9	-	100.0%
Compensation	56.5	45.1	25.3%
Liquidity payments	66.2	-	100.0%
Routing and clearing	20.1	-	100.0%
Regulatory services provided to Market	29.4	28.2	4.3%
Systems and communications	11.2	4.4	154.5%
SIAC support (1)	51.5	61.5	(16.3)%
Professional services	18.0	18.5	(2.7)%
Depreciation and amortization	27.8	14.9	86.6%
Occupancy	11.5	7.6	51.3%
Marketing and other	20.8	10.6	96.2%
Total expenses	$ 479.3	$ 389.5	23.1%

(1) Market's SIAC Support expense will not equal SIAC Services' revenues from Data Processing Fees - NYSE as certain fees billed to the NYSE by SIAC relate to software developed for the NYSE's internal use, and as a result a portion of these fees incurred during the application development stage has been capitalized.

Merger expenses and related exit costs. For the three months ended September 30, 2006, Market incurred $2.9 million in merger expenses and related exit costs consisting of severance and other professional fees incurred in connection with both the integration of the Archipelago businesses and the contemplated combination between NYSE Group and Euronext. NYSE Group did not incur any similar expenses in the same period a year ago.

Market Compensation

Dollars (in Millions)	**Three months ended September 30, 2006**	**2005**	**Percent Increase (Decrease)**
Salaries and bonus	$ 42.0	$ 32.9	27.7%
Stock based compensation	3.6	-	100.0%
Benefits and other	10.9	12.2	(10.6)%
	$ 56.5	$ 45.1	25.3%

Compensation. For the three months ended September 30, 2006, compared to the three months ended September 30, 2005, compensation increased $11.4 million, or 25.3%. The employees of NYSE Arca accounted for $14.3 million of compensation for the three months ended September 30, 2006. Excluding the impact of NYSE Arca's consolidation and stock based compensation during the three months ended September 30, 2006, compensation decreased by $6.5 million primarily due to cost savings initiatives. NYSE Group did not record any stock-based compensation in the same period a year ago.

Liquidity payments. For the three months ended September 30, 2006, NYSE Arca incurred liquidity payments of $66.2 million. NYSE Group did not incur any similar expenses in the same period a year ago.

Routing and clearing. For the three months ended September 30, 2006, NYSE Arca incurred routing and clearing fees of $20.1 million. NYSE Group did not incur any similar expenses in the same period a year ago.

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Regulatory services provided to Market. For the three months ended September 30, 2006, compared to the three months ended September 30, 2005, Regulation support costs increased $1.2 million or 4.3%. The increase primarily reflects increased compensation costs for cash awards granted to Regulation employees following the merger with Archipelago.

Systems and SIAC Support. For the three months ended September 30, 2006, compared to three months ended September 30, 2005, systems related costs decreased $3.2 million, or 4.9%. For the three months ended September 30, 2006, the operations of NYSE Arca accounted for $5.3 million of the $11.2 million of systems and communications. SIAC support costs decreased by 16.3% to $51.5 million due to structural cost effectiveness efforts, which resulted in lower data processing operations and systems development costs, lower headcount and increased utilization rates.

Professional Services. For the three months ended September 30, 2006, compared to the three months ended September 30, 2005, professional services decreased $0.5 million or 2.7%. For the three months ended September 30, 2006, the operation of NYSE Arca accounted for $4.0 million of the $18.0 million of professional services. The decrease was primarily due to reduced legal fees and the achievement of certain integration synergies.

Depreciation and Amortization. For the three months ended September 30, 2006, compared to the three months ended September 30, 2005, depreciation and amortization increased $12.9 million, or 86.6%. The operations of NYSE Arca represented $9.2 million of the increase following the March 7, 2006 merger with Archipelago. The remaining $3.7 million increase was associated with capital expenditures on technology and infrastructure.

Occupancy. For the three months ended September 30, 2006, compared to the three months ended September 30, 2005, occupancy costs increased $3.9 million or 51.3%, which was primarily the result of the consolidation of NYSE Arca's operations following the completion of the March 7, 2006 merger with Archipelago.

Marketing and other. For the three months ended September 30, 2006, compared to the three months ended September 30, 2005, marketing and other expenses increased $10.2 million, or 96.2%. The operation of NYSE Arca accounted for $5.0 million of marketing and other. The remaining $5.2 million increase was primarily as a result of continued increase in advertising and promotion activity, as well as higher insurance premiums and additional expenses incurred as a public company.

SIAC Services Segment Results - Expenses

	Three months ended September 30,		
Dollars (in Millions)	**2006**	**2005**	**Percent Increase (Decrease)**
Merger expenses and related exit costs	$ 4.8	$ -	100.0%
Compensation	47.0	54.9	(14.4)%
Systems and communications	16.0	20.1	(20.4)%
Professional services	7.8	11.1	(29.7)%
Depreciation and amortization	6.3	9.9	(36.4)%
Occupancy	8.6	7.4	16.2%
Marketing and other	1.0	1.6	(37.5)%
Total expenses	$ 91.5	$ 105.0	(12.9)%

Merger expenses and related exit costs. For the three months ended September 30, 2006, SIAC Services incurred $4.8 million in merger expenses and related exit costs consisting of lease terminations and related exit costs in connection with the integration of the Archipelago businesses. NYSE Group did not incur any similar expenses in the same period a year ago.

SIAC Services Compensation

	Three months ended September 30,		
Dollars (in Millions)	**2006**	**2005**	**Percent Increase (Decrease)**
Salaries and bonus	$ 35.1	$ 42.2	(16.8)%
Stock based compensation	1.9	-	100.0%
Benefits and other	10.0	12.7	(21.3)%
	$ 47.0	$ 54.9	(14.4)%

Compensation. For the three months ended September 30, 2006, compared to the three months ended September 30, 2005, compensation decreased $7.9 million, or 14.4%. This decrease was primarily due to cost reduction initiatives and the resulting decrease in average headcount, partially offset by $1.9 million of stock based compensation recognized for restricted stock units granted on March 7, 2006, the date that the merger between the NYSE and Archipelago was completed.

Systems and communications. For the three months ended September 30, 2006, compared to the three months ended September 30, 2005, systems and communication expenses decreased $4.1 million, or 20.4%, to $16.0 million, primarily as a result of cost containment initiatives.

Professional Services. For the three months ended September 30, 2006, compared to the three months ended September 30, 2005, professional services decreased $3.3 million, or 29.7%, to $7.8 million. Lower average contract staff and decreased temporary support for trading operations contributed to the reduction.

Depreciation and Amortization. For the three months ended September 30, 2006, compared to the three months ended September 30, 2005, depreciation and amortization expense decreased $3.6 million, or 36.4%, to $6.3 million, as the number of assets reaching full depreciation outpaced capital expenditures.

Occupancy. For the three months ended September 30, 2006, compared to the three months ended September 30, 2005, occupancy costs increased by $1.2 million, or 16.2%, to $8.6 million due to increased operating expenses.

Marketing and other. For the three months ended September 30, 2006, compared to the three months ended September 30, 2005, marketing and other expenses decreased $0.6 million to $1.0 million.

Regulation Segment Results - Expenses

	Three months ended September 30,		
Dollars (in Millions)	**2006**	**2005**	**Percent Increase (Decrease)**
Compensation	$ 28.6	$ 27.4	4.4%
Market services provided to Regulation	28.4	28.1	1.1%
Systems and communications	0.4	0.6	(33.3)%
Professional services	3.4	1.0	240.0%
Depreciation and amortization	1.0	1.1	(9.1)%
Occupancy	2.7	2.7	-%
Marketing and other	2.2	2.2	-%
Total expenses	$ 66.7	$ 63.1	5.7%

Regulation Compensation

	Three months ended September 30,		
Dollars (in Millions)	**2006**	**2005**	**Percent Increase (Decrease)**
Salaries and bonus	$ 22.8	$ 20.8	9.6%
Deferred compensation award	1.8	-	100.0%
Benefits and other	4.0	6.6	(39.4)%
	$ 28.6	$ 27.4	4.4%

Compensation. For the three months ended September 30, 2006, compared to the three months ended September 30, 2005, compensation increased $1.2 million, or 4.4%, to $28.6 million. This increase was primarily due to $1.8 million of cash awards granted to NYSE employees on March 7, 2006, the date that the merger between the NYSE and Archipelago was completed.

Market services provided to Regulation. For the three months ended September 30, 2006, compared to the three months ended September 30, 2005, market support costs increased $0.3 million, or 1.1%.

Professional services. For the three months ended September 30, 2006, compared to the three months ended September 30, 2005, professional services increased $2.4 million, to $3.4 million. These costs increased as newly established mandatory regulatory audits commenced during 2006.

Regulation's other operating expenses, including systems and communications, depreciation and amortization as well as marketing and general and administrative expenses were relatively stable period over period.

Regulatory Fine Income

For the three months ended September 30, 2006, compared to the three months ended September 30, 2005, fine income decreased $0.2 million to $10.7 million. Regulatory fines result from actions taken by Regulation in its oversight of Market constituents and accordingly may vary period over period.

Investment and Other Income, Net

The components of investment and other income, net, were as follows:

Dollars (in Millions)	**Three months ended September 30,**			
	2006		**2005**	
Investment income, net	$	12.2	$	9.3
DTCC settlement gain		10.8		-
Other income		6.4		4.1
Total	$	29.4	$	13.4

The increase in investment income, net, is primarily attributable to an increase in the average interest bearing investment portfolio and higher interest rates. DTCC settlement gain reflects a one-time payment from certain DTCC subsidiaries in connection with the termination of their service agreement with SIAC. NYSE Group's share (net of minority interest of $3.6 million) of the one-time settlement gain was $7.2 million. The increase in other income primarily relates to insurance reimbursements received which may vary period over period.

Income Taxes

The consolidated effective tax rate for the three months ended September 30, 2006 and 2005 was 40.3% and 38.2%, respectively. For the three months ended September 30, 2006, we provided for income taxes at a 40.5% combined federal, state and local tax rate.

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Nine Months Ended September 30, 2006 Versus Nine Months Ended September 30, 2005

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

	Nine months ended September 30,		
Dollars (in Millions)	**2006**	**2005**	**Percent Increase (Decrease)**
Revenues			
Activity assessment	$ 492.4	$ 433.4	13.6%
Transaction	454.1	108.4	318.9%
Listing	266.3	256.9	3.7%
Market data	166.1	133.4	24.5%
Data processing	109.0	136.7	(20.3)%
Regulatory	135.3	96.7	39.9%
Licensing, facility and other	94.2	42.2	123.2%
Total revenues	1,717.4	1,207.7	42.2%
Section 31 fees	(492.4)	(433.4)	13.6%
Merger expenses and related exit costs	(21.0)	-	100.0%
Compensation	(436.8)	(381.8)	14.4%
Liquidity payments	(160.0)	-	100.0%
Routing and clearing	(49.7)	-	100.0%
Systems and communications	(91.0)	(92.7)	(1.8)%
Professional services	(85.5)	(90.3)	(5.3)%
Depreciation and amortization	(99.4)	(78.5)	26.6%
Occupancy	(62.9)	(51.6)	21.9%
Marketing and other	(70.2)	(46.3)	51.6%
Regulatory fine income	33.8	32.8	3.0%
Operating income	182.3	65.9	176.6%
Investment and other income, net	63.3	36.6	73.0%
Gain on sale of equity investment	20.9	-	100.0%
Income before taxes and minority interest	266.5	102.5	160.0%
Provision for income taxes	(104.5)	(40.3)	159.3%
Minority interest in income of consolidated subsidiary	(2.5)	(1.2)	108.3%
Net income	$ 159.5	$ 61.0	161.5%

Consolidated Results

For the nine months ended September 30, 2006, the results of operations of NYSE Group included the results of the NYSE, SIAC and the results of operations of NYSE Arca since March 7, 2006, the date that the merger between the NYSE and Archipelago was completed. 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 nine months ended September 30, 2006, NYSE Group reported revenues (excluding activity assessment fees), operating income and net income of $1,225.0 million, $182.3 million and $159.5 million, respectively. This compares to revenues (excluding activity assessment fees), operating income and net income of $774.3 million, $65.9 million and $61.0 million, respectively, for the nine months ended September 30, 2005.

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The $450.7 million increase in revenues (excluding activity assessment fees), $116.4 million increase in operating income and $98.5 million increase in net income for the period reflect the following principal factors:

Increased revenues - NYSE Arca's results of operations have been consolidated since March 8, 2006 and contributed revenues of $391.9 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 $116.4 million was the result of: (i) NYSE Arca's contribution to operating income of $81.8 million for the nine months ended September 30, 2006 and (ii) focus on reduction of costs and increased efficiencies, partially offset by $37.3 million of compensation expense recorded at the time of the merger following the immediate vesting of approximately 600,000 restricted stock units granted to NYSE employees, and the immediate vesting of other compensation arrangements with NYSE Regulation employees.

Improved net income - Period over period, net income increased $98.5 million primarily as a result of increased operating revenue as well as $20.9 million gain recognized on the sale of shares of DTCC common stock to certain DTCC participants in March 2006.

Segment Results

Market Segment Results - Revenues

	Nine months ended September 30,		
Dollars (in Millions)	**2006**	**2005**	**Percent Increase (Decrease)**
Activity assessment	$ 492.4	$ 433.4	13.6%
Transaction	454.1	108.4	318.9%
Listing	266.3	256.9	3.7%
Market data	166.1	133.4	24.5%
Market services provided to Regulation	99.5	87.8	13.3%
Licensing, facility and other	94.2	42.2	123.2%
Total revenues	$ 1,572.6	$ 1,062.1	48.1%

Transaction - For the nine months ended September 30, 2006, compared to the nine months ended September 30, 2005, transaction fees increased by $345.7 million, or 318.9%, primarily as a result of NYSE Arca's contribution since the completion of the merger between the NYSE and Archipelago on March 7, 2006.

Listing - The following table sets forth the revenues from listing fees calculated in accordance with U.S. generally accepted accounting principles ("as reported") and as would be reported on a basis without giving effect to U.S. generally accepted accounting principles ("billed basis"). NYSE Group believes that the presentation of billed basis revenues, as they relate to original fees, is a good indicator of current listing fee activity as billed basis information excludes the effects of recognizing revenues related to original fees over periods ranging from 5 to 10 years.

	Nine months ended September 30,					
Dollars (in Millions)	**2006**		**2005**		**Percent Increase (Decrease)**	
	As reported	**As billed**	**As reported**	**As billed**	**As reported**	**As billed**
Annual fees	$ 198.3	$ 198.3	$ 189.1	$ 189.1	4.9%	4.9%
Original fees	68.0	57.2	67.8	63.9	0.2%	(10.5)%
	$ 266.3	$ 255.5	$ 256.9	$ 253.0	3.7%	1.0%

For the nine months ended September 30, 2006, compared to the nine months ended September 30, 2005, listing fee revenue increased $9.4 million, or 3.7%, on an as reported basis.

Listing fees are primarily derived from annual listing fees and original listing fees. Original listing fees are deferred and recognized over the estimated service periods ranging from 5 to 10 years. The difference between the as reported revenues and the billed basis revenues is due to the amortization of listing fees in accordance with U.S. generally accepted accounting principles.

Annual listing fees totaled $198.3 million on both an as reported and billed basis for the nine months ended September 30, 2006, compared with $189.1 million on both an as reported and billed basis for the nine months ended September 30, 2005, an increase of 4.9%. The period over period improvement is due to the increase in aggregate shares billed at the beginning of the year, from approximately 387 billion to 408 billion, as well as new listings of shares during the year, which generate annual fees for the period of the year listed. Annual listing fees are recognized on a pro-rata basis over the calendar year.

Original listing fees amounted to $68.0 million on an as reported basis. On a billed basis, original listing fees totaled $57.2 million for the nine months ended September 30, 2006 compared with $63.9 million, a 10.5% decrease, for the same period a year ago. The decrease was due to reduced new issue listings, from 108 to 82 driven primarily by a reduction in the number of new closed end fund listings which are highly interest rate sensitive.

Market Data - For the nine months ended September 30, 2006, compared to the nine months ended September 30, 2005, market data fees increased $32.7 million, or 24.5%, primarily from the contribution of NYSE Arca since the completion of the merger between the NYSE and Archipelago on March 7, 2006.

Market services provided to Regulation - For the nine months ended September 30, 2006, compared to the nine months ended September 30, 2005, market services provided to Regulation increased $11.7 million, or 13.3%. Market provides these services, which include costs associated with supporting IT infrastructure, finance, human resources and other administrative functions to support the operations of Regulation. The increase was primarily driven by the additional investment in technology supporting Regulation and increased compensation costs for vesting of restricted stock units granted to Market employees following the merger with Archipelago.

Licensing, facility and other - For the nine months ended September 30, 2006, compared to the nine months ended September 30, 2005, licensing and facility fees increased $52.0 million, or 123.2%. License fees represented $36.2 million of the increase. Also driving the increase was the new pricing for certain facility charges implemented in January 2006. NYSE Group did not generate licensing fees in the same period a year ago.

SIAC Services Segment Results - Revenue

	Nine months ended September 30,		
Dollars (in Millions)	**2006**	**2005**	**Percent Increase (Decrease)**
Data processing - non- NYSE	$ 109.0	$ 136.7	(20.3)%
Data processing - NYSE	163.6	189.4	(13.6)%
Total revenues	$ 272.6	$ 326.1	(16.4)%

Data Processing Fees ~~-~~Non-NYSE. For the nine months ended September 30, 2006, compared to the nine months ended September 30, 2005, data processing fees decreased $27.7 million, or 20.3%, to $109.0 million. The decline is due to reduced level of services provided to SIAC's major customers.

Data Processing Fees ~~-~~NYSE. For the nine months ended September 30, 2006, compared to the nine months ended September 30, 2005, data processing fees decreased $25.8 million, or 13.6%, to $163.6 million. These fees decreased due to cost reduction initiatives.

Regulation Segment Results - Revenues

	Nine months ended September 30,		
Dollars (in Millions)	**2006**	**2005**	**Percent Increase (Decrease)**
Regulatory	$ 135.3	$ 96.7	39.9%
Regulatory services provided to Market	96.7	84.3	14.7%
Total revenues	$ 232.0	$ 181.0	28.2%

Regulatory Fees - For the nine months ended September 30, 2006, compared to the nine months ended September 30, 2005, regulatory fees increased $38.6 million, or 39.9%, to $135.3 million. For the nine months ended September 30, 2006, NYSE Arca contributed regulatory fees of $6.5 million. The remaining $32.1 million increase was due to higher reported Gross FOCUS revenues ($204.8 billion compared to $134.0 billion period over period).

Regulatory services provided to Market - For the nine months ended September 30, 2006, compared to the nine months ended September 30, 2005, regulatory services to Market increased $12.4 million or 14.7%. These services, which include costs associated with surveillance, examination and enforcement with respect to Market activities, and overseeing compliance by listed companies, are provided by Regulation. The increase primarily reflects increased compensation costs for cash awards granted to Regulation employees following the completion of the merger between the NYSE and Archipelago on March 7, 2006.

Market Segment Results - Expenses

Dollars (in Millions)	Nine months ended September 30, 2006		Nine months ended September 30, 2005		Percent Increase (Decrease)
Section 31 fees	$	492.4	$	433.4	13.6%
Merger expenses and related exit costs		14.8		-	100.0%
Compensation		191.7		137.1	39.8%
Liquidity payments		160.0		-	100.0%
Routing and clearing		49.7		-	100.0%
Regulatory services provided to Market		96.7		84.3	14.7%
Systems and communications		30.8		17.6	75.0%
SIAC support (1)		163.3		189.4	(13.8)%
Professional services		57.3		59.7	(4.0)%
Depreciation and amortization		73.6		45.1	63.2%
Occupancy		29.8		21.1	41.2%
Marketing and other		57.1		34.4	66.0%
Total expenses	$	1,417.2	$	1,022.1	38.7%

(1) Market's SIAC Support expense will not equal SIAC Services' revenues from Data Processing Fees - NYSE as certain fees billed to the NYSE by SIAC relate to software developed for the NYSE's internal use, and as a result a portion of these fees incurred during the application development stage has been capitalized.

Merger expenses and related exit costs. For the nine months ended September 30, 2006, Market incurred $14.8 million in merger expenses and related exit costs consisting of severance costs ($4.8 million), legal, printing and accounting fees incurred in connection with the completion of the merger as well as the May 2006 selling shareholder offering of NYSE Group common stock ($4.0 million), and professional and other fees ($6.0 million) directly attributable to either the merger between the NYSE and Archipelago, which was completed March 7, 2006, or the contemplated combination between NYSE Group and Euronext. NYSE Group did not incur any similar expenses in the same period a year ago.

Market Compensation

Dollars (in Millions)	Nine months ended September 30, 2006		Nine months ended September 30, 2005		Percent Increase (Decrease)
Salaries and bonus	$	119.8	$	97.2	23.3%
Stock based compensation		28.6		-	100.0%
Benefits and other		43.3		39.9	8.5%
	$	191.7	$	137.1	39.8%

Compensation. For the nine months ended September 30, 2006, compared to the nine months ended September 30, 2005, compensation was up $54.6 million, or 39.8%. The employees of NYSE Arca accounted for $34.1 million of this increase following the completion of the merger on March 7, 2006. Excluding the impact of NYSE Arca's consolidation during the nine months ended September 30, 2006, compensation increased by $20.5 million. This increase was primarily due to the $28.6 million recognized for certain restricted stock units granted to NYSE Market employees following the merger with NYSE Arca and other stock based compensation, including a $21.0 million charge recorded at the time of the merger for the immediate vesting of certain restricted stock units. NYSE Group did not record any stock-based compensation in the same period a year ago. Excluding the impact of NYSE Arca's results and stock based compensation awards, compensation decreased by $8.1 million, primarily in relation to cost savings initiatives.

Liquidity payments. For the nine months ended September 30, 2006, NYSE Arca incurred liquidity payments of $160.0 million. NYSE Group did not incur any similar expenses in the same period a year ago.

Routing and clearing. For the nine months ended September 30, 2006, NYSE Arca incurred routing and clearing fees of $49.7 million. NYSE Group did not incur any similar expenses in the same period a year ago.

Regulatory services provided to Market. For the nine months ended September 30, 2006, compared to the nine months ended September 30, 2005, Regulation support costs increased $12.4 million or 14.7%. The increase primarily reflects increased compensation costs for cash awards granted to Regulation employees following the merger with Archipelago.

Systems and SIAC Support. For the nine months ended September 30, 2006, compared to nine months ended September 30, 2005, systems related costs decreased $12.9 million, or 6.2 %. For the nine months ended September 30, 2006, the operations of NYSE Arca accounted for $13.0 million of the $30.8 million of systems and communications. Other systems and communications expenses remained relatively unchanged as compared to the same period a year ago. SIAC support costs decreased by 13.8% to $163.3 million due to structural cost effectiveness efforts, which resulted in lower data processing operations and systems development costs, lower headcount and increased utilization rates.

Professional Services. For the nine months ended September 30, 2006, compared to the year ended September 30, 2005, professional services decreased $2.4 million or 4.0%. NYSE Arca accounted for $8.6 million of the $57.3 million. Excluding the impact of NYSE Arca's consolidation during the nine months ended September 30, 2006, professional services decreased by $11.0 million primarily due to reduced legal fees.

Depreciation and Amortization. For the nine months ended September 30, 2006, compared to the nine months ended September 30, 2005, depreciation and amortization increased $28.5 million, or 63.2%. The operations of NYSE Arca represented $20.5 million of the increase following the March 7, 2006 completion of our merger. The remaining $8.0 million increase was chiefly associated with continued capital expenditures on technology and infrastructure.

Occupancy. For the nine months ended September 30, 2006, compared to the nine months ended September 30, 2005, occupancy increased $8.7 million or 41.2%, which was primarily the result of the consolidation of NYSE Arca's operations following the completion of the merger between the NYSE and Archipelago on March 7, 2006.

Marketing and other. For the nine months ended September 30, 2006, compared to the nine months ended September 30, 2005, marketing and other expenses increased $22.7 million, or 66.0%. The operation of NYSE Arca accounted for $11.8 million of marketing and other. The remaining $10.9 million increase was a result of increased advertising and promotion activity as part of the merger between the NYSE and Archipelago, as well as higher insurance premiums and additional expenses incurred as a public company.

SIAC Services Segment Results - Expenses

Dollars (in Millions)	Nine months ended September 30, 2006		Percent Increase (Decrease)
	2006	2005	
Merger expenses and related exit costs	$ 6.2	$ -	100.0%
Compensation	158.8	170.6	(6.9)%
Systems and communications	49.7	65.1	(23.7)%
Professional services	25.2	32.1	(21.5)%
Depreciation and amortization	22.3	29.8	(25.2)%
Occupancy	25.4	23.0	10.4%
Marketing and other	7.6	6.3	20.6%
Total expenses	$ 295.2	$ 326.9	(9.7)%

Merger expenses and related exit costs. For the nine months ended September 30, 2006, SIAC Services incurred $6.2 million in merger expenses and related exit costs consisting of lease terminations, severance and related exit costs in connection with the integration of the Archipelago businesses. NYSE Group did not incur any similar expenses in the same period a year ago.

SIAC Services Compensation

Dollars (in Millions)	Nine months ended September 30, 2006		Percent Increase (Decrease)
	2006	2005	
Salaries and bonus	$ 109.2	$ 126.3	(13.5)%
Stock based compensation	17.6	-	100.0%
Benefits and other	32.0	44.3	(27.8)%
	$ 158.8	$ 170.6	(6.9)%

Compensation. For the nine months ended September 30, 2006, compared to the nine months ended September 30, 2005, compensation decreased $11.8 million, or 6.9%. This decrease was primarily due to cost reduction initiatives and the resulting decrease in average headcount, which was partially offset by $17.6 million of stock based compensation recognized for certain restricted stock units granted to SIAC employees following the merger with Archipelago, including a $13.6 million charge recorded at the time of the merger for the immediate vesting of certain restricted stock units.

Systems and communications. For the nine months ended September 30, 2006, compared to the nine months ended September 30, 2005, systems and communication expenses decreased $15.4 million, or 23.7%, to $49.7 million, primarily as a result of cost containment initiatives.

Professional Services. For the nine months ended September 30, 2006, compared to the nine months ended September 30, 2005, professional services decreased $6.9 million, or 21.5%, to $25.2 million. Lower average contract staff and decreased temporary support for trading operations contributed to the reduction.

Depreciation and Amortization. For the nine months ended September 30, 2006, compared to the nine months ended September 30, 2005, depreciation and amortization expense decreased $7.5 million, or
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25.2% period over period, to $22.3 million, as the number of assets reaching full depreciation outpaced capital expenditures.

Occupancy. For the nine months ended September 30, 2006, compared to the nine months ended September 30, 2005, occupancy costs increased by $2.4 million, or 10.4%, to $25.4 million due to increased operating expenses.

Marketing and other. For the nine months ended September 30, 2006, compared to the nine months ended September 30, 2005, marketing and other costs increased by $1.3 million, or 20.6%.

Regulation Segment Results - Expenses

	Nine months ended September 30,				
Dollars (in Millions)		**2006**		**2005**	**Percent Increase (Decrease)**
Compensation	$	92.4	$	80.0	15.5%
Market services provided to Regulation		99.5		87.8	13.3%
Systems and communications		1.1		1.0	10.0%
Professional services		6.2		1.8	244.4%
Depreciation and amortization		3.4		3.6	(5.6)%
Occupancy		7.8		7.6	2.6%
Marketing and other		5.6		5.5	1.8%
Total expenses	$	216.0	$	187.3	15.3%

Regulation Compensation

	Nine months ended September 30,				
Dollars (in Millions)		**2006**		**2005**	**Percent Increase (Decrease)**
Salaries and bonus	$	67.8	$	59.8	13.4%
Deferred compensation award		8.5		-	100.0%
Benefits and other		16.1		20.2	(20.3)%
	$	92.4	$	80.0	15.5%

Compensation. For the nine months ended September 30, 2006, compared to the nine months ended September 30, 2005, compensation increased $12.4 million, or 15.5%, to $92.4 million. This increase was primarily due to the $8.5 million recognition of certain cash awards granted to NYSE employees at the time of the merger coupled with an increase in headcount and related increased compensation costs within Regulation.

Market services provided to Regulation. For the nine months ended September 30, 2006, compared to the nine months ended September 30, 2005, market support costs increased $11.7 million, or 13.3%. These services are provided by Market to support the operations of Regulation. The increase was primarily driven by the increased compensation costs for vesting of restricted stock units granted to Market employees following the merger with Archipelago.

Professional services. For the nine months ended September 30, 2006, compared to the nine months ended September 30, 2005, professional services increased $4.4 million, to $6.2 million. These costs increased as newly established mandatory regulatory audits commenced during 2006.

Regulation's other operating expenses, including systems and communications, depreciation and amortization as well as marketing and general and administrative expenses were relatively stable period over period.

Regulatory Fine Income

For the nine months ended September 30, 2006, compared to the nine months ended September 30, 2005, fine income increased $1.0 million, or 3.0%. Regulatory fines result from actions taken by Regulation in its oversight of Market constituents and accordingly may vary period over period.

Investment and Other Income, Net

The components of investment and other income, net, were as follows:

Dollars (in Millions)	**Nine months ended September 30, 2006**		**2005**	
Investment income, net	$	31.5	$	24.8
DTCC settlement gain		10.8		-
Other income		21.0		11.8
Total	$	63.3	$	36.6

The increase in investment income, net, is primarily attributable to an increase in the average interest bearing investment portfolio and higher interest rates. DTCC settlement gain reflects a one-time payment from certain DTCC subsidiaries in connection with the termination of their service agreement with SIAC. NYSE Group's share (net of minority interest of $3.6 million) of the one-time settlement gain was $7.2 million. The increase in other income primarily relates to insurance reimbursements received which may vary period over period.

Gain on Sale of Equity Investment

On March 28, 2006, NYSE Group sold its shares of DTCC 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 is included in gain on sale of equity investment in the condensed consolidated statement of income for the nine months ended September 30, 2006. 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.

Income Taxes

The consolidated effective tax rate for the nine months ended September 30, 2006 and 2005 was 39.2% and 39.3%, respectively. For the nine months ended September 30, 2006, we provided for income taxes at a 40.5% combined federal, state and local tax rate.

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Liquidity and Capital Resources

Historically, NYSE Group’s primary source of liquidity has been cash generated by NYSE Group’s operations, and NYSE Group’s liquidity requirements have been for working capital, capital expenditures and general corporate use.

NYSE Group’s working capital was $625.0 million at September 30, 2006, and capital expenditures equaled $68.4 million for the nine months ended September 30, 2006. Capital expenditures related primarily to the development and maintenance of corporate and regulatory systems and to trading technology, including expenditures relating to the development and implementation of NYSE Hybrid Market and compliance with Regulation NMS.

Cash and cash equivalents are generated primarily from listing services, sales of market information, collection of activity assessment fees (which are fully remitted to the SEC), data processing services provided by SIAC, collections of regulatory fees, fees generated for trading, and investment income.

At September 30, 2006, NYSE Group had $255.6 million of cash and cash equivalents, an increase of $212.1 million from its cash and cash equivalents at December 31, 2005. Current assets readily convertible into cash include accounts receivable, securities purchased under agreements to resell and marketable securities. These assets totaled $870.8 million at September 30, 2006 and, when combined with cash and cash equivalents, represented 89.4% of NYSE Group’s current assets.

Under the terms of the operating agreement of the NYSE, no regulatory fees, fines or penalties collected by NYSE Regulation may be distributed to NYSE Group or any entity other than NYSE Regulation. As a result, the use of regulatory fees, fines and penalties collected by NYSE Regulation may be considered restricted. As of September 30, 2006, NYSE Group did not have any significant restricted cash balance.

With respect to investment activities, the boards of directors of NYSE Group and SIAC have separately approved investment policies for externally managed portfolios. The goals of these policies are to preserve principal, maintain adequate liquidity at all times to fund budgeted operating and capital requirements, and to maximize returns relative to investing guidelines and market conditions. NYSE Group’s current policies prevent it from investing directly in any equity type investment, however, this policy can be modified at the discretion of the chief executive officer and chief financial officer of NYSE Group, based on the delegation of authority by the board of directors. SIAC’s policies permit investing in equity funds. Participants in supplemental executive savings and other deferred compensation plans are permitted to invest in equity funds. Under NYSE Group’s policies, it may invest only in securities that are rated AA or better by two nationally recognized rating organizations and that are in U.S. dollar denominations. A portion of SIAC’s portfolio is used to fund its non-qualified benefit obligations. The average duration of the portfolios for both the NYSE Group and SIAC must not exceed two years. Both NYSE Group and SIAC periodically review their respective policies and investment managers.

As of September 30, 2006, NYSE Group had no outstanding short-term or long-term debt. In connection with the transaction contemplated by the combination agreement, NYSE Euronext will enter into a credit facility agreement that will permit it to borrow amounts sufficient to fund the cash portion of the consideration to be issued in the exchange offer contemplated under the combination agreement, which is expected to be approximately $2.8 billion. NYSE Euronext may only borrow amounts under this credit facility agreement if the combination is successful. If the combination is successful, NYSE Euronext expects to use the credit facility as an undrawn back stop for a global commercial paper program, which NYSE Euronext will use mainly to finance the cash portion of the consideration to be paid to Euronext shareholders pursuant to the exchange offer. The credit facility will include terms and conditions customary for agreements of this type, which could restrict NYSE Euronext's ability to engage in additional transactions or incur additional indebtedness. It is currently anticipated that NYSE Euronext will issue approximately $2.8 billion of commercial paper through a number of dealers. The dealers will offer the notes worldwide in a variety of currencies with maturities of less than 365 days. The goal will be to issue the paper in the most cost effective currency. The interest on the commercial paper will be paid using proceeds from operations of the combined entity; and it is expected that the debt will be paid off in three to four years.

NYSE Group believes that cash flows from operating activities and financing capabilities along with future cash flows from operations are sufficient to meet the needs of its current operations. If existing cash balances are insufficient, NYSE Group intends to seek additional financing. NYSE Group may not be able to obtain additional financing on acceptable terms or at all.

Net cash provided by operating activities equaled $18.0 million for the nine months ended September 30, 2006, consisting of net income of $159.5 million and the effects of non-cash items, such as depreciation, which does not adversely affect cash flows. Also, during the nine months ended September 30, 2006, NYSE Group remitted $660.0 million in Section 31 fees to the SEC.

Net cash provided by investing activities equaled $689.2 million for the nine months ended September 30, 2006. NYSE Group acquired $218.2 million of cash in connection with the Archipelago merger. Net sales of investment securities and securities purchased under agreements to resell of $524.7 million funded the $409.8 million distribution to NYSE former members.

As part of the merger with Archipelago, NYSE Group’s financing activities included a total cash distribution of $506.2 million (consisting of a $409.8 million cash distribution and a $96.4 million dividend) to the NYSE’s former members during the nine months ended September 30, 2006.

New Accounting Pronouncements

In July 2006, the Financial Accounting Standard Board (FASB) issued FASB Interpretation No. (FIN) 48, *Accounting for Uncertainty in Income Taxes*, an interpretation of Statement of Financial Standards (SFAS) No. 109, *Accounting for Income Taxes*. FIN 48 addresses how a reporting company accounts for all tax positions including the uncertain tax positions reflected or expects to be reflected in the company's past or future tax returns. The interpretation also requires the company to recognize interest and penalties associated with the uncertain tax positions. This interpretation is effective for fiscal years beginning after December 15, 2006. We are currently evaluating the potential impact that the implementation of FIN 48 will have on our financial condition, results of operations and cash flows.

In September 2006, the FASB issued FAS 158, *Employer’s Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132R*, FAS 158 requires the recognition on the statement of financial condition of the funded status of pension and other postretirement benefit plans. The pronouncement is effective for fiscal years ending after December 15, 2006. NYSE Group will adopt FAS 158 during the fourth quarter of 2006 and, based on our preliminary estimates, we believe that the adoption will have a $30.0 to $50.0 million after-tax impact on our accumulated other comprehensive income. The actual impact of adopting FAS 158 will be dependent upon the then fair market value of plan assets and the projected benefit obligation, measured as of adoption date.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current*

year Financial Statements ("SAB 108"), which provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. The guidance is effective for fiscal years beginning after November 15, 2006 and it allows a one-time transitional cumulative effect adjustment to beginning-of-year retained earnings at the first fiscal year ending after November 15, 2006 for errors that were not previously deemed material, but are material under the guidance in SAB 108. NYSE Group does not expect the adoption of SAB 108 to have a material impact on its financial statements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

There have been no material changes in quantitative and qualitative disclosures about market risk from those disclosed in our annual report on Form 10-K for the year ended December 31, 2005.

Item 4. Controls and Procedures

As of the end of the period covered by this report, we evaluated, under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, the effectiveness of the design and operation of the disclosure controls and procedures, as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, of NYSE Group and its subsidiaries. Based upon that evaluation, our chief executive officer and chief financial officer concluded that the design and operation of the disclosure controls and procedures were effective as of the end of the period covered by this report. No significant changes were made in our internal control over financial reporting, as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, or in other factors that could significantly affect our internal control over financial reporting subsequent to the date of their evaluation.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

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 filed with the SEC on March 31, 2006, as updated by Item 1 of Part II of our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2006 and June 30, 2006. The following discussion is limited to recent developments concerning our legal proceedings and should be read in conjunction with those earlier reports. Unless otherwise indicated, all proceedings discussed in those earlier reports remain outstanding.

In re NYSE Specialists Securities Litigation

Briefing on plaintiffs' appeal to the U.S. Court of Appeals for the Second Circuit from the final judgment in favor of the NYSE was completed on September 18, 2006.

Grasso Litigation

Mr. Grasso filed an appeal of the New York Supreme Court's August 8, 2006 decision 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 would commence trial of that claim on October 16, 2006. On September 14, 2006, the appellate court entered an order staying the trial until the appeals of that decision, and of the earlier decision denying Mr. Grasso's motion to dismiss, have been decided.

On August 23, 2006, the New York Supreme Court granted Mr. McCall's motion for summary judgment dismissing the third-party claims asserted against him by Mr. Grasso. Mr. Grasso filed an appeal of that decision.

On September 7, 2006, Mr. Grasso filed a motion seeking reassignment of the case to a different judge for all further proceedings, and on September 14, 2006, the New York Supreme Court denied that motion. Mr. Grasso filed an appeal of that decision.

On October 4, 2006, Mr. Grasso filed a motion for leave to amend his crossclaims to add causes of action against the NYSE for termination payments under his 1999 and 2003 employment agreements based upon an allegation that he resigned (including for “Good Reason”). After the NYSE opposed the motion, Mr. Grasso withdrew it.

On October 18, 2006, the appellate court heard oral argument on Mr. Langone’s appeal of the denial of his motion for summary judgment on the single cause of action asserted against him by the New York Attorney General.

On October 19, 2006, the New York Supreme Court entered an order granting the motions for summary judgment filed by the NYSE and Mr. Reed and dismissed all of the crossclaims asserted by Mr. Grasso against the NYSE and Mr. Reed. The court granted in part Mr. Grasso’s and Mr. Langone’s motions for summary judgment with respect to the New York Attorney General’s claim against the NYSE, dismissing that claim to the extent it sought injunctive relief but denying the request to dismiss the claim to the extent it seeks declaratory relief. Among other rulings in the decision, the court granted in part the New York Attorney General’s motion for partial summary judgment against Mr. Grasso, finding that Mr. Grasso breached his fiduciary duties to the NYSE and that certain payments made to Mr. Grasso were unlawful and must be returned to the NYSE, and ordered the New York Attorney General to provide an accounting within 30 days of the court’s decision. On November 2, 2006, the New York Attorney General filed an accounting stating that Mr. Grasso must disgorge approximately $112.2 million; Mr. Grasso has until December 4, 2006 to file any objections to the accounting. Mr. Grasso filed an appeal of the court’s decision, and also has indicated that he intends to seek an order from the appellate court staying the trial court from conducting any accounting of amounts allegedly owed.

At December 31, 2003, the NYSE accrued compensation expense amounting to $36.0 million related to Mr. Grasso. This accrual, which remains current, reflects management's interpretation of the provisions contained in the most recent employment agreement, which provides terms outlining certain payments to which Mr. Grasso could be entitled upon ceasing employment with the NYSE, if that agreement is found to be valid and the payments were deemed to be allowable and appropriate under the law.

NYSE/Archipelago Merger-Related Litigation

On November 8, 2006, the court heard oral argument on the motion by the NYSE and Mr. Thain to dismiss the Hyman and Lief amended complaints and the Rittmaster complaint, and reserved decision on the motion.

Other Matters

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.

Item 1A. Risk Factors

Other than with respect to the risk factors below, there have been no material changes from the risks disclosed in the "Risk Factors" section of our annual report on Form 10-K for the year ended December 31, 2005 and our quarterly report on Form 10-Q for the quarter ended June 30, 2006.

NYSE Group's share of trading in NYSE-listed securities has declined.

As a result of increasing competition, NYSE Group's share of trading on a matched basis in NYSE-listed securities has declined from approximately 78.6% for the three months ended September 30, 2005, to 70.6% for the three months ended September 30, 2006. If growth in NYSE Group's overall trading volume of NYSE-listed securities does not offset any significant decline in NYSE Group's share of NYSE-listed trading, or if a decline in the NYSE Group's share of trading in NYSE-listed securities makes the NYSE's market appear less liquid, then NYSE Euronext's financial condition and operating results could be adversely affected**.**

NYSE Group and certain of its subsidiaries are required to allocate funds and resources to NYSE Regulation.

NYSE Group and certain of its subsidiaries are required to allocate significant resources to NYSE Regulation. This dedication of resources may limit NYSE Group's ability to reduce its expense structure and to dedicate funds and human resources in other areas.

NYSE Regulation has undertaken the regulatory functions of the NYSE and NYSE Arca, Inc. pursuant to agreements with each entity. NYSE Regulation also has an explicit agreement with NYSE Group, the NYSE and NYSE Market so that adequate funding is provided to NYSE Regulation. Moreover, under the operating agreement of the NYSE, no regulatory fees, fines or penalties collected by NYSE Regulation may be distributed to NYSE Group or any entity other than NYSE Regulation. The obligations to fund NYSE Regulation under the agreements covering those services could negatively affect the cash available to NYSE Group and its ability to invest in or pursue other opportunities that may also be beneficial to NYSE Group stockholders.

NYSE Group's revenues from SIAC could significantly decrease.

SIAC is the principal vendor of the NYSE's data processing and software development services.

On November 1, 2006, NYSE Group completed the purchase of the one-third ownership stake in SIAC previously held by AMEX for approximately $40.3 million, as a result of which, NYSE Group now fully owns SIAC. In connection with the purchase, the SIAC shareholders' agreement and AMEX's participation in the SIAC facilities management agreement (under which SIAC has previously provided technology services to the NYSE and AMEX) were terminated, and SIAC agreed to provide substantially reduced services to AMEX under a new services agreement.

SIAC's non-NYSE revenues accounted for 8.9% of the NYSE's revenues, net of Section 31 fees, for the nine months ended September 30, 2006. Historically, SIAC has relied on three principal customers for a majority of its revenues: (1) the NYSE, (2) AMEX and (3) NSCC and Fixed Income Clearing Corporation ("FICC"). In 2005, the NYSE was the source of 58% of SIAC's revenues; AMEX was the source of 16.4% of SIAC's revenues; and NSCC and FICC were the source of 9.1% of SIAC's revenues. NSCC and FICC have entered into separate agreements with SIAC, pursuant to which the services previously provided by SIAC have been phased out. In addition, in connection with NYSE Group's acquisition of AMEX's interest in SIAC, NYSE Group and AMEX have agreed that SIAC would provide substantially reduced services to AMEX under a new services agreement. As a result, SIAC's revenues from non-NYSE sources will be reduced. To the extent that NYSE Group is not able to reduce its costs associated with SIAC to offset the amount of reduction in revenue from SIAC (which NYSE Group may not be able to do), NYSE Group's profits and results of operations may be adversely affected.

Additionally, if the proposed combination of NYSE Group’s and Euronext’s businesses is successful, the combined company, NYSE Euronext, will face the following risks:

NYSE Euronext may not be able to successfully integrate the businesses and operations of NYSE Group and Euronext in a timely fashion or at all.

NYSE Group and Euronext operate as independent companies, and will continue to do so until the completion of the combination. Following the combination, NYSE Group and Euronext are committed to a policy of decentralized management under which their respective operating subsidiaries, including the exchanges, will have autonomy in respect of day-to-day operating decisions. NYSE Euronext expects that this approach will ease some of the challenges of integration. Nonetheless, NYSE Euronext expects to integrate certain of the management and technological functions of NYSE Group and Euronext. NYSE Euronext management may face significant challenges in integrating the two companies' technologies, organizations, procedures, policies and operations, as well as in addressing differences in the business cultures of the two companies, and retaining key NYSE Group and Euronext personnel. The integration process may prove to be complex and time consuming and require substantial resources and effort. It may also disrupt each company's ongoing businesses, which may adversely affect NYSE Euronext's relationships with market participants, employees, regulators and others with whom NYSE Group and Euronext have business or other dealings.

The merger between the NYSE and Archipelago, which was completed on March 7, 2006, may add further challenges and complexity. NYSE Group is currently in the process of integrating the businesses of the NYSE and Archipelago, and this process is not expected to be completed before the completion of the combination. In addition, on November 1, 2006, NYSE Group acquired the one-third ownership stake in SIAC previously held by AMEX for approximately $40.3 million. NYSE Group already owned the other two-thirds interest. As a result, NYSE Euronext's management may have to integrate the businesses of the NYSE, Archipelago, SIAC and Euronext simultaneously, which may be difficult. If NYSE Euronext fails to manage the integration of these businesses effectively, its growth strategy and future profitability could be negatively affected, and it may fail to achieve the anticipated benefits of the combination. In addition, difficulties in integrating these businesses could harm NYSE Euronext's reputation.

The combined company may fail to realize the anticipated cost savings, growth opportunities and synergies and other benefits anticipated from the combination.

The success of the combination will depend, in part, on NYSE Euronext's ability to realize anticipated cost savings, revenue synergies and growth opportunities from combining the businesses of NYSE Group and Euronext. NYSE Euronext expects to benefit from operational synergies resulting from the consolidation of capabilities and elimination of redundancies as well as greater efficiencies from increased scale, market integration and automation. Specifically, NYSE Group and Euronext expect that the combined company will achieve cost savings of approximately $275 million annually within three years after the combination (with approximately $55 million of these cost savings achieved by the end of the first year, $125 million by the end of the second year and the full $275 million by the end of the third year). Of this amount, an estimated $250 million is expected to result from the overall rationalization of the combined company's information technology systems and platforms, driven by the high level of compatibility among the current technology platforms maintained by NYSE Group and Euronext, and the remaining $25 million is expected to result from the rationalization of non-information technology related activities, including the integration of corporate support functions such as finance, and the streamlining of marketing and other corporate costs such as insurance, occupancy and professional services.

NYSE Group and Euronext also expect that the combination will create approximately $100 million in incremental revenues annually within three years after the combination. Of this amount, approximately $35 million is expected to be generated from cash equities trading, $45 million is expected to be generated from derivatives and the remaining $20 million is expected to be generated from listing fees.

There is a risk, however, that the businesses of NYSE Group and Euronext may not be combined in a manner that permits these costs savings and revenue synergies to be realized in the time currently expected, or at all. For example, the completion of the combination and the post-closing reorganization may be delayed or challenged by parties opposing the completion of the combination or the post-closing reorganization. This may limit or delay the NYSE Euronext management's ability to integrate the two companies' technologies, organizations, procedures, policies and operations. In addition, a variety of factors, including but not limited to wage inflation, currency fluctuations, and difficulty integrating technology platforms, may adversely affect NYSE Euronext's anticipated cost savings and revenues. Also, the combined company must achieve its anticipated cost savings without adversely affecting its revenues. If NYSE Euronext is not able to successfully achieve these objectives, the anticipated benefits of the combination may not be realized fully, or at all, or may take longer to realize than expected.

NYSE Euronext, NYSE Group and Euronext will incur significant transaction and combination-related costs in connection with the combination.

NYSE Group and Euronext expect to incur a number of non-recurring costs associated with combining the operations of the two companies, anticipated to be approximately $70 million in each of 2007 and 2008 and $40 million in 2009. In addition, NYSE Group and Euronext will incur legal, accounting and other transaction fees and other costs related to the combination, anticipated to be between $50 million and $75 million. Some of these costs are payable regardless of whether the combination is completed. Moreover, under specified circumstances, NYSE Group or Euronext may be required to reimburse certain expenses incurred by the other party in connection with the termination of the proposed combination. Additional unanticipated costs may be incurred in the integration of the businesses of the NYSE Group and Euronext.

Although NYSE Euronext expects that the elimination of duplicative costs, as well as the realization of other efficiencies related to the integration of the businesses, may offset these transaction- and combination-related costs over time, this net benefit may not be achieved in the near term, or at all.

If the combination is successful, NYSE Euronext will incur a substantial amount of debt to finance the cash portion of the consideration for the Euronext shares to be acquired, which could restrict its ability to engage in additional transactions or incur additional indebtedness.

In connection with the exchange offer, NYSE Euronext will enter into a credit facility agreement that permits NYSE Euronext to borrow amounts sufficient to fund the cash portion of the exchange offer, which is expected to be $3.0 billion. NYSE Euronext may only borrow amounts under this credit facility agreement if the combination is successful. If the combination is successful, NYSE Euronext expects to use the credit facility as an undrawn back stop for a global commercial paper program, which NYSE Euronext will use mainly to finance the cash portion of the consideration to be paid to Euronext shareholders pursuant to the exchange offer. The credit facility includes terms and conditions customary for agreements of this type, which could restrict NYSE Euronext's ability to engage in additional transactions or incur additional indebtedness.

Obtaining required approvals may delay or prevent completion of the combination or reduce the anticipated benefits of the combination.

Completion of the combination is conditioned upon, among other things, the receipt of material governmental authorizations, consents, orders and approvals, including the approval of the SEC and certain European regulators. NYSE Group and Euronext intend to pursue all required approvals in accordance with their obligations under the combination agreement. In connection with granting these approvals, the respective governmental or other authorities may impose conditions on, or require divestitures or other changes relating to, the divisions, operations or assets of NYSE Group or Euronext. For example, the SEC and the European regulators may require changes to the structure, certificate of incorporation or bylaws of NYSE Euronext and its subsidiaries, as a precondition to their approval of the combination. Neither NYSE Group nor Euronext can predict what, if any, changes may be required. Certain changes may require NYSE Group or Euronext to obtain the approval of their respective shareholders and, therefore, to re-solicit proxies, which may result in significant additional expenses and costs. More generally, these and other conditions, divestitures or other changes may jeopardize or delay completion of the combination or may reduce the anticipated benefits of the combination.

Item 5. Other Information

On November 8, 2006, NYSE Group announced a workforce reduction of more than 500 positions, including approximately 400 employees and 120 full-time consultants. This organizational downsizing excludes NYSE Regulation and reflects ongoing initiatives to cut costs and improve efficiencies, eliminate duplicate services, and realize cost savings resulting from the March 7, 2006 merger with Archipelago.

As a result of this workforce reduction, NYSE Group expects to recognize a restructuring charge in the fourth quarter of 2006 of approximately $28.0 million consisting primarily of severance payments and curtailment losses.

A copy of the NYSE Group press release with respect to the foregoing is attached to this report as exhibit 99.1.

Item 6. Exhibits

Exhibit No.	Description
2.1	Combination Agreement, dated as of June 1, 2006, by and among NYSE Group, Inc., Euronext N.V., NYSE Euronext, Inc., and Jefferson Merger Sub, Inc.[1]
3.1	Amended and Restated Certificate of Incorporation of NYSE Group, Inc.[2]
3.2	Amended and Restated Bylaws of NYSE Group, Inc.[3]
10.1	NYSE Group, Inc. 2006 Stock Incentive Plan[4]
31.1	Certification of the principal executive officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act
31.2	Certification of the principal financial officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act
32	Certification of the principal executive officer and the principal financial officer pursuant to 18 U.S.C. Section 1350
99.1	Press Release entitled "NYSE Group Announces Workforce Reduction," dated November 8, 2006

[1] Incorporated by reference to Exhibit 2.1 to the registrant's current report on Form 8K (File No. 1-32829) filed on June 2, 2006.
[2] Incorporated by reference to Exhibit 3.1 to the registrant's registration statement on Form 8-A (File No. 1-32829) filed on March 7, 2006.
[3] Incorporated by reference to Exhibit 3.2 to the registrant's registration statement on Form 8-A (File No. 1-32829) filed on March 7, 2005.
[4] Incorporated by reference to Exhibit 99.1 to the registrant's registration statement on Form S-8 (File No. 333-132284) filed on March 8, 2006.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, NYSE Group has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized:

NYSE Group, Inc.

Date: November 10, 2006

By: /s/ Nelson Chai

Nelson Chai
Chief Financial Officer