GOLDMAN SACHS GROUP INC/
Form 10-Q
April 05, 2006

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended February 24, 2006

or

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

For the transition period to

Commission File Number: 001-14965
The Goldman Sachs Group, Inc.
(Exact name of registrant as specified in its charter)

Delaware **(State or other jurisdiction of incorporation or organization)**	**13-4019460** **(I.R.S. Employer Identification No.)**
85 Broad Street, New York, NY **(Address of principal executive offices)**	**10004** **(Zip Code)**

(212) 902-1000
(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes o No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer o Non-accelerated filer o

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

APPLICABLE ONLY TO CORPORATE ISSUERS

As of March 24, 2006 there were 432,046,629 shares of the registrant s common stock outstanding.

THE GOLDMAN SACHS GROUP, INC.
QUARTERLY REPORT ON FORM 10-Q FOR THE FISCAL QUARTER ENDED FEBRUARY 24, 2006
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PART I: FINANCIAL INFORMATION

Item 1: Financial Statements (Unaudited)

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
(UNAUDITED)

	Three Months Ended February	
	2006	**2005**
	(in millions, except per share amounts)	
Revenues		
Investment banking	$ 1,470	$ 873
Trading and principal investments	6,687	4,141
Asset management and securities services	1,554	774
Interest income	7,535	4,176
Total revenues	17,246	9,964
Interest expense	6,813	3,449
Cost of power generation	98	110
Revenues, net of interest expense and cost of power generation	10,335	6,405
Operating expenses		
Compensation and benefits	5,301	3,203
Brokerage, clearing and exchange fees	351	252
Market development	100	82
Communications and technology	124	118
Depreciation and amortization	125	118
Amortization of identifiable intangible assets	34	31
Occupancy	193	148
Professional fees	109	96
Other expenses	309	212
Total non-compensation expenses	1,345	1,057
Total operating expenses	6,646	4,260
Pre-tax earnings	3,689	2,145
Provision for taxes	1,210	633
Net earnings	2,479	1,512
Preferred stock dividends	26	
Net earnings applicable to common shareholders	$ 2,453	$ 1,512

Earnings per common share		
Basic	$ 5.36	$ 3.06
Diluted	5.08	2.94
Average common shares outstanding		
Basic	457.3	494.3
Diluted	483.3	515.1

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

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THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(UNAUDITED)

	As of	
	February 2006	**November 2005**
	(in millions, except share and per share amounts)	
Assets		
Cash and cash equivalents	$ 6,571	$ 10,261
Cash and securities segregated for regulatory and other purposes	60,956	51,405
Receivables from brokers, dealers and clearing organizations	14,971	15,150
Receivables from customers and counterparties	68,644	60,231
Securities borrowed	200,017	191,800
Securities purchased under agreements to resell	96,442	83,619
Financial instruments owned, at fair value	249,807	238,043
Financial instruments owned and pledged as collateral, at fair value	42,471	38,983
Total financial instruments owned, at fair value	292,278	277,026
Other assets	18,942	17,312
Total assets	$ 758,821	$ 706,804
Liabilities and shareholders equity		
Secured short-term borrowings	$ 8,482	$ 7,972
Unsecured short-term borrowings	49,870	47,247
Total short-term borrowings, including the current portion of long-term borrowings	58,352	55,219
Payables to brokers, dealers and clearing organizations	7,435	10,014
Payables to customers and counterparties	180,636	178,304
Securities loaned	22,902	23,331
Securities sold under agreements to repurchase	167,226	149,026
Financial instruments sold, but not yet purchased, at fair value	153,887	149,071
Other liabilities and accrued expenses	24,817	13,830
Secured long-term borrowings	18,518	15,669
Unsecured long-term borrowings	96,133	84,338
Total long-term borrowings	114,651	100,007
Total liabilities	729,906	678,802

Commitments, contingencies and guarantees		
Shareholders equity		
Preferred stock, par value $0.01 per share; 150,000,000 shares authorized, 70,000 shares issued and outstanding as of February 2006 with liquidation preference of $25,000 per share	1,750	1,750
Common stock, par value $0.01 per share; 4,000,000,000 shares authorized, 587,186,019 and 573,970,935 shares issued as of February 2006 and November 2005, respectively, and 431,259,569 and 437,170,695 shares outstanding as of February 2006 and November 2005, respectively	6	6
Restricted stock units and employee stock options	3,305	3,415
Nonvoting common stock, par value $0.01 per share; 200,000,000 shares authorized, no shares issued and outstanding		
Additional paid-in capital	18,413	17,159
Retained earnings	21,416	19,085
Accumulated other comprehensive income	15	
Common stock held in treasury, at cost, par value $0.01 per share; 155,926,450 and 136,800,240 shares as of February 2006 and November 2005, respectively	(15,990)	(13,413)
Total shareholders equity	28,915	28,002
Total liabilities and shareholders equity	$ 758,821	$ 706,804

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

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THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY
(UNAUDITED)

	Period Ended	
	February 2006	**November 2005**
	(in millions, except per share amounts)	
Preferred stock		
Balance, beginning of year	$ 1,750	$
Issued		1,750
Balance, end of period	1,750	1,750
Common stock, par value $0.01 per share		
Balance, beginning of year	6	6
Issued		
Balance, end of period	6	6
Restricted stock units and employee stock options		
Balance, beginning of year	3,415	2,013
Issued	670	1,871
Delivered	(697)	(423)
Forfeited	(82)	(37)
Options exercised	(1)	(9)
Balance, end of period	3,305	3,415
Additional paid-in capital		
Balance, beginning of year	17,159	15,501
Issuance of common stock	1,001	1,417
Preferred stock issuance costs		(31)
Excess tax benefit related to share-based compensation	253	272
Balance, end of period	18,413	17,159
Retained earnings		
Balance, beginning of year	19,085	13,970
Net earnings	2,479	5,626
Dividends declared on common stock	(122)	(494)
Dividends declared on preferred stock	(26)	(17)
Balance, end of period	21,416	19,085
Unearned compensation		

Balance, beginning of year		(117)
Amortization of restricted stock units		117
Balance, end of period		
Accumulated other comprehensive income		
Balance, beginning of year		11
Currency translation adjustment, net of tax	17	(27)
Minimum pension liability adjustment, net of tax		(11)
Net gains on cash flow hedges, net of tax	1	9
Net unrealized holding (losses)/gains, net of tax	(3)	18
Balance, end of period	15	
Common stock held in treasury, at cost		
Balance, beginning of year	(13,413)	(6,305)
Repurchased	(2,577)	(7,108)
Balance, end of period	(15,990)	(13,413)
Total shareholders equity	$ 28,915	$ 28,002

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

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THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Three Months Ended February	
	2006	**2005**
	(in millions)	
Cash flows from operating activities		
Net earnings	$ 2,479	$ 1,512
Noncash items included in net earnings		
Depreciation and amortization	175	161
Amortization of identifiable intangible assets	44	37
Share-based compensation	333	219
Changes in operating assets and liabilities		
Cash and securities segregated for regulatory and other purposes	(1,009)	3,012
Net receivables from brokers, dealers and clearing organizations	(2,400)	343
Net payables to customers and counterparties	(5,282)	(4,739)
Securities borrowed, net of securities loaned	(8,645)	(25,763)
Securities sold under agreements to repurchase, net of securities purchased under agreements to resell	5,377	39,814
Financial instruments owned, at fair value	(14,878)	(11,429)
Financial instruments sold, but not yet purchased, at fair value	4,466	(6,541)
Other, net	(316)	(2,336)
Net cash used for operating activities	(19,656)	(5,710)
Cash flows from investing activities		
Purchase of property, leasehold improvements and equipment	(674)	(507)
Proceeds from sales of property, leasehold improvements and equipment	24	
Business acquisitions, net of cash acquired	(270)	(517)
Net cash used for investing activities	(920)	(1,024)
Cash flows from financing activities		
Short-term borrowings, net	3,938	(3,898)
Issuance of long-term borrowings	18,239	18,821
Repayment of long-term borrowings, including the current portion of long-term borrowings	(4,011)	(6,253)
Derivative contracts with a financing element, net	620	174
Common stock repurchased	(2,577)	(1,225)
Dividends paid on common and preferred stock	(148)	(128)
Proceeds from issuance of common stock	644	409
Excess tax benefit related to share-based compensation	181	
Net cash provided by financing activities	16,886	7,900

Net (decrease)/increase in cash and cash equivalents	(3,690)	1,166
Cash and cash equivalents, beginning of year	10,261	4,365
Cash and cash equivalents, end of period	$ 6,571	$ 5,531

SUPPLEMENTAL DISCLOSURES:
Cash payments for interest, net of capitalized interest, were $7.11 billion and $3.63 billion during the three months ended February 2006 and February 2005, respectively.
Cash payments for income taxes, net of refunds, were $659 million and $216 million during the three months ended February 2006 and February 2005, respectively.
Noncash activities:
The firm assumed $197 million of debt in connection with business acquisitions during the three months ended February 2005.

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

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THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

	Three Months Ended February	
	2006	**2005**
	(in millions)	
Net earnings	$ 2,479	$ 1,512
Currency translation adjustment, net of tax	17	
Net gains on cash flow hedges, net of tax	1	
Net unrealized holding losses, net of tax	(3)	
Comprehensive income	$ 2,494	$ 1,512

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

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THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Note 1. Description of Business

The Goldman Sachs Group, Inc. (Group Inc.), a Delaware corporation, together with its consolidated subsidiaries (collectively, the firm), is a leading global investment banking, securities and investment management firm that provides a wide range of services worldwide to a substantial and diversified client base that includes corporations, financial institutions, governments and high-net-worth individuals.

The firm s activities are divided into three segments:

Investment Banking. The firm provides a broad range of investment banking services to a diverse group of corporations, financial institutions, governments and individuals.

Trading and Principal Investments. The firm facilitates client transactions with a diverse group of corporations, financial institutions, governments and individuals and takes proprietary positions through market making in, trading of and investing in fixed income and equity products, currencies, commodities and derivatives on such products. In addition, the firm engages in specialist and market-making activities on equities and options exchanges and clears client transactions on major stock, options and futures exchanges worldwide. In connection with the firm s merchant banking and other investing activities, the firm makes principal investments directly and through funds that the firm raises and manages.

Asset Management and Securities Services. The firm provides investment advisory and financial planning services and offers investment products across all major asset classes to a diverse group of institutions and individuals worldwide, and provides prime brokerage services, financing services and securities lending services to mutual funds, pension funds, hedge funds, foundations and high-net-worth individuals worldwide.

Note 2. Significant Accounting Policies

Basis of Presentation

These condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles that require management to make certain estimates and assumptions. The most important of these estimates and assumptions relate to fair value measurements, the accounting for goodwill and identifiable intangible assets, the determination of compensation and benefits expenses for interim periods and the provision for potential losses that may arise from litigation and regulatory proceedings and tax audits. Although these and other estimates and assumptions are based on the best available information, actual results could be materially different from these estimates.

These condensed consolidated financial statements include the accounts of Group Inc. and all other entities in which the firm has a controlling financial interest. All material intercompany transactions and balances have been eliminated.

The firm determines whether it has a controlling financial interest in an entity by first evaluating whether the entity is a voting interest entity, a variable interest entity (VIE) or a qualifying special-purpose entity (QSPE) under generally accepted accounting principles.

Voting Interest Entities. Voting interest entities are entities in which (i) the total equity investment at risk is sufficient to enable the entity to finance its activities independently and (ii) the equity holders have the obligation to absorb losses, the right to receive residual returns and the right to make decisions about the entity s activities. Voting interest entities

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THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

are consolidated in accordance with Accounting Research Bulletin (ARB) No. 51, Consolidated Financial Statements, as amended. ARB No. 51 states that the usual condition for a controlling financial interest in an entity is ownership of a majority voting interest. Accordingly, the firm consolidates voting interest entities in which it has a majority voting interest.

Variable Interest Entities. VIEs are entities that lack one or more of the characteristics of a voting interest entity. A controlling financial interest in a VIE is present when an enterprise has a variable interest, or a combination of variable interests, that will absorb a majority of the VIE s expected losses, receive a majority of the VIE s expected residual returns, or both. The enterprise with a controlling financial interest, known as the primary beneficiary, consolidates the VIE. In accordance with Financial Accounting Standards Board (FASB) Interpretation (FIN) No. 46-R, Consolidation of Variable Interest Entities, the firm consolidates all VIEs of which it is the primary beneficiary.

The firm determines whether it is the primary beneficiary of a VIE by first performing a qualitative analysis of the VIE that includes a review of, among other factors, its capital structure, contractual terms, which interests create or absorb variability, related party relationships and the design of the VIE. Where qualitative analysis is not conclusive, the firm performs a quantitative analysis. For purposes of allocating a VIE s expected losses and expected residual returns to its variable interest holders, the firm utilizes the top down method. Under that method, the firm calculates its share of the VIE s expected losses and expected residual returns using the specific cash flows that would be allocated to it, based on contractual arrangements and/or the firm s position in the capital structure of the VIE, under various probability-weighted scenarios.

QSPEs. QSPEs are passive entities that are commonly used in mortgage and other securitization transactions. Statement of Financial Accounting Standards (SFAS) No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, sets forth the criteria an entity must satisfy to be a QSPE. These criteria include the types of assets a QSPE may hold, limits on asset sales, the use of derivatives and financial guarantees, and the level of discretion a servicer may exercise in attempting to collect receivables. These criteria may require management to make judgments about complex matters, including whether a derivative is considered passive and the degree of discretion a servicer may exercise. In accordance with SFAS No. 140 and FIN No. 46-R, the firm does not consolidate QSPEs.

Equity-Method Investments. When the firm does not have a controlling financial interest in an entity but exerts significant influence over the entity s operating and financial policies (generally defined as owning a voting interest of 20% to 50%) and has an investment in common stock or in-substance common stock, the firm accounts for its investment in accordance with the equity method of accounting prescribed by Accounting Principles Board (APB) Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock.

Other. If the firm does not consolidate an entity or apply the equity method of accounting, the firm accounts for its investment at fair value. The firm also has formed numerous nonconsolidated investment funds with third-party investors that are typically organized as limited partnerships. The firm acts as general partner for these funds and does not hold a majority of the economic interests in any fund. For funds established on or before June 29, 2005 in which the firm holds more than a minor interest and for funds established or modified after June 29, 2005, the firm has provided the third-party investors with rights to terminate the funds (see Recent Accounting Developments below). These fund

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

investments are included in Financial instruments owned, at fair value in the condensed consolidated statements of financial condition.

These condensed consolidated financial statements are unaudited and should be read in conjunction with the audited consolidated financial statements incorporated by reference in the firm s Annual Report on Form 10-K for the fiscal year ended November 25, 2005. The condensed consolidated financial information as of November 25, 2005 has been derived from audited consolidated financial statements not included herein.

These unaudited condensed consolidated financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair statement of the results for the interim periods presented. These adjustments are of a normal, recurring nature. Interim period operating results may not be indicative of the operating results for a full year.

Unless specifically stated otherwise, all references to February 2006 and February 2005 refer to the firm s fiscal periods ended, or the dates, as the context requires, February 24, 2006 and February 25, 2005, respectively. All references to November 2005, unless specifically stated otherwise, refer to the firm s fiscal year ended, or the date, as the context requires, November 25, 2005. All references to 2006, unless specifically stated otherwise, refer to the firm s fiscal year ending, or the date, as the context requires, November 24, 2006. Certain reclassifications have been made to previously reported amounts to conform to the current presentation.

Revenue Recognition

Investment Banking. Underwriting revenues and fees from mergers and acquisitions and other financial advisory assignments are recognized in the condensed consolidated statements of earnings when the services related to the underlying transaction are completed under the terms of the engagement. Expenses associated with such transactions are deferred until the related revenue is recognized or the engagement is otherwise concluded. Underwriting revenues are presented net of related expenses. Expenses associated with financial advisory transactions are recorded as non-compensation expenses, net of client reimbursements.

Financial Instruments. Total financial instruments owned, at fair value and Financial instruments sold, but not yet purchased, at fair value are reflected in the condensed consolidated statements of financial condition on a trade-date basis and consist of financial instruments carried at fair value or amounts that approximate fair value, with related unrealized gains or losses generally recognized in the condensed consolidated statements of earnings. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

In determining fair value, the firm separates its financial instruments into three categories cash (i.e., nonderivative) trading instruments, derivative contracts and principal investments.

Cash Trading Instruments. Fair values of the firm s cash trading instruments are generally obtained from quoted market prices in active markets, broker or dealer price quotations, or alternative pricing sources with reasonable levels of price transparency. The types of instruments valued in this manner include U.S. government and agency securities, other sovereign government obligations, liquid mortgage products, investment-grade and high-yield corporate bonds, listed equities, money market securities, state, municipal and provincial obligations, and physical commodities.

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

Certain cash trading instruments trade infrequently and have little or no price transparency. Such instruments may include certain corporate bank loans, mortgage whole loans and distressed debt. The firm values these instruments initially at cost and generally does not adjust valuations unless there is substantive evidence supporting a change in the value of the underlying instrument or valuation assumptions (such as similar market transactions, changes in financial ratios or changes in the credit ratings of the underlying companies). Where there is evidence supporting a change in the value, the firm uses valuation methodologies such as the present value of known or estimated cash flows.

Cash trading instruments owned by the firm (long positions) are marked to bid prices and instruments sold but not yet purchased (short positions) are marked to offer prices. If liquidating a position is expected to affect its prevailing market price, the valuation is adjusted generally based on market evidence or predetermined policies. In certain circumstances, such as for highly illiquid positions, management s estimates are used to determine this adjustment.

Derivative Contracts. Fair values of the firm s derivative contracts consist of exchange-traded and over-the-counter (OTC) derivatives and are reflected net of cash that the firm has paid and received (for example, option premiums or cash paid or received pursuant to credit support agreements). Fair values of the firm s exchange-traded derivatives are generally determined from quoted market prices. OTC derivatives are valued using valuation models. The firm uses a variety of valuation models including the present value of known or estimated cash flows and option-pricing models. The valuation models used to derive the fair values of the firm s OTC derivatives require inputs including contractual terms, market prices, yield curves, credit curves, measures of volatility, prepayment rates and correlations of such inputs. The selection of a model to value an OTC derivative depends upon the contractual terms of, and specific risks inherent in, the instrument as well as the availability of pricing information in the market. The firm generally uses similar models to value similar instruments. Where possible, the firm verifies the values produced by its pricing models to market transactions. For OTC derivatives that trade in liquid markets, such as generic forwards, swaps and options, model selection does not involve significant judgment because market prices are readily available. For OTC derivatives that trade in less liquid markets, model selection requires more judgment because such instruments tend to be more complex and pricing information is less available in these markets. Price transparency is inherently more limited for more complex structures because they often combine one or more product types, requiring additional inputs such as correlations and volatilities. As markets continue to develop and more pricing information becomes available, the firm continues to review and refine the models it uses. At the inception of an OTC derivative contract (day one), the firm values the contract at the model value if the firm can verify all of the significant model inputs to observable market data and verify the model to market transactions. When appropriate, valuations are adjusted to reflect various factors such as liquidity, bid/offer spreads and credit considerations. These adjustments are generally based on market evidence or predetermined policies. In certain circumstances, such as for highly illiquid positions, management s estimates are used to determine these adjustments.

Where the firm cannot verify all of the significant model inputs to observable market data and verify the model to market transactions, the firm values the contract at the transaction price at inception and, consequently, records no day one gain or loss in accordance with

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THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

Emerging Issues Task Force (EITF) Issue No. 02-3, Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities. Following day one, the firm adjusts the inputs to its valuation models only to the extent that changes in these inputs can be verified by similar market transactions, third-party pricing services and/or broker quotes, or can be derived from other substantive evidence such as empirical market data. In circumstances where the firm cannot verify the model to market transactions, it is possible that a different valuation model could produce a materially different estimate of fair value.

Principal Investments. In valuing corporate and real estate principal investments, the firm s portfolio is separated into investments in private companies, investments in public companies (excluding the firm s investment in the convertible preferred stock of Sumitomo Mitsui Financial Group, Inc. (SMFG)) and the firm s investment in SMFG.

The firm s private principal investments, by their nature, have little or no price transparency. Such investments are initially carried at cost as an approximation of fair value. Adjustments to carrying value are made if there are third-party transactions evidencing a change in value. Downward adjustments are also made, in the absence of third-party transactions, if it is determined that the expected realizable value of the investment is less than the carrying value. In reaching that determination, many factors are considered including, but not limited to, the operating cash flows and financial performance of the companies or properties relative to budgets or projections, trends within sectors and/or regions, underlying business models, expected exit timing and strategy, and any specific rights or terms associated with the investment, such as conversion features and liquidation preferences.

The firm s public principal investments, which tend to be large, concentrated holdings that result from initial public offerings or other corporate transactions, are valued using quoted market prices discounted based on predetermined written policies for nontransferability and illiquidity.

The firm s investment in the convertible preferred stock of SMFG is carried at fair value, which is derived from a model that incorporates SMFG s common stock price and credit spreads, the impact of nontransferability and illiquidity, and the downside protection on the conversion strike price. The firm s investment in the convertible preferred stock of SMFG is generally nontransferable, but is freely convertible into SMFG common stock. Restrictions on the firm s ability to hedge or sell two-thirds of the common stock underlying its investment in SMFG lapsed in equal installments on February 7, 2005 and March 9, 2006. As of the date of this filing, the firm was fully hedged with respect to the first one-third installment of the unrestricted shares and partially hedged with respect to the second one-third installment of the unrestricted shares. Restrictions on the firm s ability to hedge or sell the remaining one-third installment lapse on February 7, 2007. Effective March 1, 2006, the conversion price of the firm s SMFG preferred stock into shares of SMFG common stock is ¥320,700. This price is subject to downward adjustment if the price of SMFG common stock at the time of conversion is less than the conversion price (subject to a floor of ¥105,700).

In general, transfers of financial assets are accounted for as sales under SFAS No. 140 when the firm has relinquished control over the transferred assets. For transfers accounted for as sales, any related gains or losses are recognized in net revenues. Transfers that are not accounted for as

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

sales are accounted for as collateralized financing arrangements, with the related interest expense recognized in net revenues over the lives of the transactions.

Collateralized Financing Arrangements. Collateralized financing arrangements consist of resale and repurchase agreements and securities borrowed and loaned. Interest income or expense on resale and repurchase agreements and securities borrowed and loaned is recognized in net revenues over the life of the transaction.

Resale and Repurchase Agreements. Securities purchased under agreements to resell and securities sold under agreements to repurchase, principally U.S. government, federal agency and investment-grade foreign sovereign obligations, represent short-term collateralized financing transactions and are carried in the condensed consolidated statements of financial condition at their contractual amounts plus accrued interest. These amounts are presented on a net-by-counterparty basis when the requirements of FIN No. 41, Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements, or FIN No. 39, Offsetting of Amounts Related to Certain Contracts, are satisfied. The firm receives securities purchased under agreements to resell, makes delivery of securities sold under agreements to repurchase, monitors the market value of these securities on a daily basis and delivers or obtains additional collateral as appropriate.

Securities Borrowed and Loaned. Securities borrowed and loaned are recorded based on the amount of cash collateral advanced or received. These transactions are generally collateralized by cash, securities or letters of credit. The firm receives securities borrowed, makes delivery of securities loaned, monitors the market value of securities borrowed and loaned, and delivers or obtains additional collateral as appropriate.

Power Generation. Power generation revenues associated with the firm s consolidated power generation facilities are included in Trading and principal investments in the condensed consolidated statements of earnings when power is delivered. Cost of power generation in the condensed consolidated statements of earnings includes all of the direct costs of these facilities (e.g., fuel, operations and maintenance), as well as the depreciation and amortization associated with the facilities and related contractual assets.

The following table sets forth the power generation revenues and costs directly associated with the firm s consolidated power generation facilities:

	Three Months Ended February	
	2006	**2005**
	(in millions)	
Revenues [1]	$ 112	$ 130
Cost of power generation	98	110

[1] Excludes revenues from nonconsolidated power generation facilities, accounted for in accordance with the equity method of accounting, as well as revenues associated with the firm s power trading activities.

Commissions. Commission revenues from executing and clearing client transactions on stock, options and futures markets worldwide are recognized in Trading and principal investments in the condensed consolidated statements of earnings on a trade-date basis.

Insurance Contracts. Revenues from variable annuity and variable life insurance contracts generally consist of fees assessed on contract holder account balances for mortality charges, policy administration and surrender charges.

These fees are recognized in the condensed consolidated

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THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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statements of earnings in the period that services are provided. Premiums earned for providing property and catastrophe reinsurance are recognized in revenues over the coverage period, net of premiums ceded for the cost of reinsurance. Insurance revenues are included in Trading and principal investments in the condensed consolidated statements of earnings.

Merchant Banking Overrides. The firm is entitled to receive merchant banking overrides (i.e., an increased share of a fund s income and gains) when the return on the funds investments exceeds certain threshold returns. Overrides are based on investment performance over the life of each merchant banking fund, and future investment underperformance may require amounts of override previously distributed to the firm to be returned to the funds. Accordingly, overrides are recognized in the condensed consolidated statements of earnings only when all material contingencies have been resolved. Overrides are included in Trading and principal investments in the condensed consolidated statements of earnings.

Asset Management. Management fees are recognized over the period that the related service is provided based upon average net asset values. In certain circumstances, the firm is also entitled to receive asset management incentive fees based on a percentage of a fund s return or when the return on assets under management exceeds specified benchmark returns or other performance targets. Incentive fees are generally based on investment performance over a 12-month period and are subject to adjustment prior to the end of the measurement period. Accordingly, incentive fees are recognized in the condensed consolidated statements of earnings when the measurement period ends. Asset management fees and incentive fees are included in Asset management and securities services in the condensed consolidated statements of earnings.

Share-Based Compensation

Effective for the first quarter of 2006, the firm adopted SFAS No. 123-R, Share-Based Payment, which is a revision to SFAS No. 123, Accounting for Stock-Based Compensation. SFAS No. 123-R focuses primarily on accounting for transactions in which an entity obtains employee services in exchange for share-based payments. Under SFAS No. 123-R, share-based awards that do not require future service (i.e., vested awards) are expensed immediately. Share-based employee awards that require future service are amortized over the relevant service period. The firm adopted SFAS No. 123-R under the modified prospective adoption method. Under that method of adoption, the provisions of SFAS No. 123-R are generally applied only to share-based awards granted subsequent to adoption. The accounting treatment of share-based awards granted to retirement-eligible employees prior to the firm s adoption of SFAS No. 123-R has not changed and financial statements for periods prior to adoption are not restated for the effects of adopting SFAS No. 123-R.

Two key differences between SFAS No. 123-R and SFAS No. 123 are:

First, SFAS No. 123-R requires expected forfeitures to be included in determining share-based employee compensation expense. Prior to the adoption of SFAS No. 123-R, forfeiture benefits were recorded as a reduction to compensation expense when an employee left the firm and forfeited the award. In the first quarter of 2006, the firm recorded a benefit for expected forfeitures on all outstanding share-based awards. The transition impact of adopting SFAS No. 123-R as of the first day of the firm s 2006 fiscal year, including the effect of accruing for expected forfeitures on outstanding share-based awards, was not material to the firm s results of operations for the quarter.

Second, SFAS No. 123-R requires the immediate expensing of share-based awards granted to retirement-eligible employees, including awards subject to non-compete agreements. Share-based

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awards granted to retirement-eligible employees prior to the adoption of SFAS No. 123-R must continue to be amortized over the stated service period of the award (and accelerated if the employee actually retires). Consequently, the firm s compensation and benefits expenses in fiscal 2006 (and, to a lesser extent, in fiscal 2007 and fiscal 2008) will include both the amortization (and acceleration) of awards granted to retirement-eligible employees prior to the adoption of SFAS No. 123-R as well as the full grant-date fair value of new awards granted to such employees under SFAS No. 123-R. The estimated annual noncash expense in fiscal 2006 associated with the continued amortization of share-based awards granted to retirement-eligible employees prior to the adoption of SFAS No. 123-R is approximately $650 million, of which $237 million was recognized in the first quarter.

The firm began to account for share-based awards in accordance with the fair value method prescribed by SFAS No. 123, Accounting for Stock-Based Compensation, as amended by SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure, in 2003. Share-based employee awards granted for the year ended November 29, 2002 and prior years were accounted for under the intrinsic-value-based method prescribed by APB Opinion No. 25, Accounting for Stock Issued to Employees, as permitted by SFAS No. 123. Therefore, no compensation expense was recognized for unmodified stock options issued for years prior to fiscal 2003 that had no intrinsic value on the date of grant.

If the firm were to recognize compensation expense over the relevant service period, generally three years, under the fair value method per SFAS No. 123 with respect to stock options granted for the year ended November 29, 2002 and prior years, net earnings would have decreased for the three months ended February 2005, resulting in pro forma net earnings and earnings per common share (EPS) as set forth below:

	Three Months Ended February 2005 (in millions, except per share amounts)
Net earnings applicable to common shareholders, as reported	$ 1,512
Add: Share-based compensation expense, net of related tax effects, included in reported net earnings	141
Deduct: Share-based compensation expense, net of related tax effects, determined under the fair value method for all awards	(153)
Pro forma net earnings applicable to common shareholders	$ 1,500
Earnings per common share, as reported	
Basic	$ 3.06
Diluted	2.94
Pro forma earnings per common share	
Basic	$ 3.03
Diluted	2.91

The firm pays cash dividend equivalents on outstanding restricted stock units. Dividend equivalents paid on restricted stock units accounted for under SFAS No. 123 and SFAS No. 123-R are charged to retained earnings when paid. Dividend equivalents paid on restricted stock units that are later forfeited by employees are reclassified to compensation expense from retained earnings. Dividend equivalents paid on restricted stock units granted prior to 2003 were accounted for under APB Opinion No. 25 and charged to compensation expense.

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Prior to the adoption of SFAS No. 123-R, the firm presented all tax benefits resulting from share-based compensation as cash flows from operating activities in the condensed consolidated statements of cash flows. SFAS No. 123-R requires cash flows resulting from tax deductions in excess of the grant-date fair value of share-based awards to be included in cash flows from financing activities. The excess tax benefit of $181 million related to share-based compensation included in cash flows from financing activities in the first quarter of 2006 would have been included in cash flows from operating activities if the firm had not adopted SFAS No. 123-R.

Goodwill

Goodwill is the cost of acquired companies in excess of the fair value of identifiable net assets at acquisition date. In accordance with SFAS No. 142, Goodwill and Other Intangible Assets, goodwill is tested at least annually for impairment. An impairment loss is triggered if the estimated fair value of an operating segment is less than its estimated net book value. Such loss is calculated as the difference between the estimated fair value of goodwill and its carrying value.

Identifiable Intangible Assets

Identifiable intangible assets, which consist primarily of customer lists, above-market power contracts, specialist rights and the value of business acquired (VOBA) in the firm s insurance subsidiaries, are amortized over their estimated useful lives. Identifiable intangible assets are tested for potential impairment whenever events or changes in circumstances suggest that an asset s or asset group s carrying value may not be fully recoverable in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. An impairment loss, calculated as the difference between the estimated fair value and the carrying value of an asset or asset group, is recognized if the sum of the estimated undiscounted cash flows relating to the asset or asset group is less than the corresponding carrying value.

Property, Leasehold Improvements and Equipment

Property, leasehold improvements and equipment, net of accumulated depreciation and amortization, are included in Other assets in the condensed consolidated statements of financial condition.

Property and equipment placed in service prior to December 1, 2001 are depreciated under the accelerated cost recovery method. Property and equipment placed in service on or after December 1, 2001 are depreciated on a straight-line basis over the useful life of the asset. Leasehold improvements for which the useful life of the improvement is shorter than the term of the lease are amortized under the accelerated cost recovery method if placed in service prior to December 1, 2001. All other leasehold improvements are amortized on a straight-line basis over the useful life of the improvement or the term of the lease, whichever is shorter. Certain costs of software developed or obtained for internal use are amortized on a straight-line basis over the useful life of the software.

Property, leasehold improvements and equipment are tested for potential impairment whenever events or changes in circumstances suggest that an asset s or asset group s carrying value may not be fully recoverable in accordance with SFAS No. 144. An impairment loss, calculated as the difference between the estimated fair value and the carrying value of an asset or asset group, is recognized if the sum of the expected undiscounted cash flows relating to the asset or asset group is less than the corresponding carrying value.

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The firm s operating leases include space held in excess of current requirements. Rent expense relating to space held for growth is included in Occupancy in the condensed consolidated statements of earnings. In accordance with SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities, the firm records a liability, based on the remaining lease rentals reduced by any potential or existing sublease rentals, for leases where the firm has ceased using the space and management has concluded that the firm will not derive any future economic benefits. Costs to terminate a lease before the end of its term are recognized and measured at fair value upon termination.

Foreign Currency Translation

Assets and liabilities denominated in non-U.S. currencies are translated at rates of exchange prevailing on the date of the condensed consolidated statement of financial condition, and revenues and expenses are translated at average rates of exchange for the fiscal period. Gains or losses on translation of the financial statements of a non-U.S. operation, when the functional currency is other than the U.S. dollar, are included, net of hedges and taxes, on the condensed consolidated statements of comprehensive income. The firm seeks to reduce its net investment exposure to fluctuations in foreign exchange rates through the use of foreign currency forward contracts and foreign currency-denominated debt. For foreign currency forward contracts, hedge effectiveness is assessed based on changes in forward exchange rates; accordingly, forward points are reflected as a component of the currency translation adjustment in the condensed consolidated statements of comprehensive income. For foreign currency-denominated debt, hedge effectiveness is assessed based on changes in spot rates. Foreign currency remeasurement gains or losses on transactions in nonfunctional currencies are included in the condensed consolidated statements of earnings.

Income Taxes

Deferred tax assets and liabilities are recognized for temporary differences between the financial reporting and tax bases of the firm s assets and liabilities. Valuation allowances are established to reduce deferred tax assets to the amount that more likely than not will be realized. The firm s tax assets and liabilities are presented as a component of Other assets and Other liabilities and accrued expenses, respectively, in the condensed consolidated statements of financial condition. Tax provisions are computed in accordance with SFAS No. 109, Accounting for Income Taxes. Contingent liabilities related to income taxes are recorded when the criteria for loss recognition under SFAS No. 5, Accounting for Contingencies, as amended, have been met.

Earnings Per Common Share

Basic EPS is calculated by dividing net earnings applicable to common shareholders by the weighted average number of common shares outstanding. Common shares outstanding includes common stock and restricted stock units for which no future service is required as a condition to the delivery of the underlying common stock. Diluted EPS includes the determinants of basic EPS and, in addition, reflects the dilutive effect of the common stock deliverable pursuant to stock options and to restricted stock units for which future service is required as a condition to the delivery of the underlying common stock.

Cash and Cash Equivalents

The firm defines cash equivalents as highly liquid overnight deposits held in the ordinary course of business.

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Recent Accounting Developments

In June 2005, the EITF reached consensus on Issue No. 04-5, Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights, which requires general partners (or managing members in the case of limited liability companies) to consolidate their partnerships or to provide limited partners with rights to remove the general partner or to terminate the partnership. The firm, as the general partner of numerous merchant banking and asset management partnerships, is required to adopt the provisions of EITF 04-5 (i) immediately for partnerships formed or modified after June 29, 2005 and (ii) in the first quarter of fiscal 2007 for partnerships formed on or before June 29, 2005 that have not been modified. The firm generally expects to provide limited partners in these funds with rights to remove the firm or rights to terminate the partnerships and, therefore, does not expect that EITF 04-5 will have a material effect on the firm s financial condition, results of operations or cash flows.

In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140. SFAS No. 155 permits an entity to measure at fair value any financial instrument that contains an embedded derivative that otherwise would require bifurcation. As permitted, the firm early adopted SFAS No. 155 in the first quarter of fiscal 2006. Adoption did not have a material effect on the firm s financial condition, results of operations or cash flows.

Effective for the first quarter of 2006, the firm adopted SFAS No. 156, Accounting for Servicing of Financial Assets an amendment of FASB Statement No. 140, which permits entities to elect to measure servicing assets and servicing liabilities at fair value and report changes in fair value in earnings. The firm acquires residential mortgage servicing rights in connection with its mortgage securitization activities and has elected under SFAS No. 156 to account for these servicing rights at fair value. Adoption did not have a material effect on the firm s financial condition, results of operations or cash flows.

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Note 3. Financial Instruments

Fair Value of Financial Instruments

The following table sets forth the firm s financial instruments owned, at fair value, including those pledged as collateral, and financial instruments sold, but not yet purchased, at fair value:

	As of			
	February 2006		November 2005	
	Assets	Liabilities	Assets	Liabilities
	(in millions)			
Commercial paper, certificates of deposit, time deposits and other money market instruments	$ 14,672 (1)	$	$ 14,609 (1)	$
U.S. government, federal agency and sovereign obligations	61,915	59,090	68,688	51,458
Corporate and other debt obligations				
Mortgage whole loans and collateralized debt obligations	38,697	306	31,459	223

(1) Includes $8.12 billion and $6.12 billion, as of February 2006 and November 2005, respectively, of money market instruments held by William Street Funding Corporation to support the William Street credit extension program.

(2) Net of cash received pursuant to credit support agreements of $23.69 billion and $22.61 billion as of February 2006 and November 2005, respectively.

(3) Net of cash paid pursuant to credit support agreements of $17.86 billion and $16.10 billion as of February 2006 and November 2005, respectively.

(4) Includes approximately $1.40 billion of U.S. government, federal agency and other debt instruments, which are held by the firm s insurance subsidiaries and accounted for as available-for-sale securities under SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities.

Derivative Activities

Derivative contracts are instruments, such as futures, forwards, swaps or option contracts, that derive their value from underlying assets, indices, reference rates or a combination of these factors. Derivative instruments may be privately negotiated contracts, which are often referred to as OTC derivatives, or they may be listed and traded on an exchange. Derivatives may involve future commitments to purchase or sell financial instruments or commodities, or to exchange currency or

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interest payment streams. The amounts exchanged are based on the specific terms of the contract with reference to specified rates, securities, commodities, currencies or indices.

Certain cash instruments, such as mortgage-backed securities, interest-only and principal-only obligations, and indexed debt instruments, are not considered derivatives even though their values or contractually required cash flows are derived from the price of some other security or index. However, certain commodity-related contracts are included in the firm s derivatives disclosure, as these contracts may be settled in cash or are readily convertible into cash.

Substantially all of the firm s derivative transactions are entered into for trading purposes, to facilitate client transactions, to take proprietary positions or as a means of risk management. Risk exposures are managed through diversification, by controlling position sizes and by establishing hedges in related securities or derivatives. For example, the firm may hedge a portfolio of common stock by taking an offsetting position in a related equity-index futures contract. Gains and losses on derivatives used for trading purposes are generally included in Trading and principal investments in the condensed consolidated statements of earnings.

In addition to derivative transactions entered into for trading purposes, the firm enters into derivative contracts to hedge its net investment in non-U.S. operations (see Note 2 for further information regarding the firm s policy on foreign currency translation) and to manage the interest rate and currency exposure on its long-term borrowings and certain short-term borrowings. To manage exposure on its borrowings, the firm uses derivatives to effectively convert a substantial portion of its long-term borrowings into U.S. dollar-based floating rate obligations. The firm applies fair value hedge accounting to derivative contracts that hedge the benchmark interest rate (i.e., London Interbank Offered Rate (LIBOR)) on its fixed rate long-term borrowings. The firm also applies cash flow hedge accounting to derivative contracts that hedge changes in interest rates associated with floating rate long-term borrowings related to its power generation facilities.

Fair values of the firm s derivative contracts are reflected net of cash paid or received pursuant to credit support agreements and are reported on a net-by-counterparty basis in the firm s condensed consolidated statements of financial condition when management believes a legal right of setoff exists under an enforceable netting agreement. The fair value of derivative financial instruments, computed in accordance with the firm s netting policy, is set forth below:

	As of			
	February 2006		November 2005	
	Assets	Liabilities	Assets	Liabilities
	(in millions)			
Forward settlement contracts	$ 11,048	$ 12,382	$ 13,921	$ 15,345
Swap agreements	25,789	20,761	25,865	22,001
Option contracts	20,070	22,116	18,746	20,483
Total	$ 56,907	$ 55,259	$ 58,532	$ 57,829

Securitization Activities

The firm securitizes commercial and residential mortgages, home equity and auto loans, government and corporate bonds and other types of financial assets. The firm acts as underwriter of the beneficial interests that are sold to investors. The firm derecognizes financial assets transferred in securitizations provided it has relinquished control over such assets. Transferred assets are

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accounted for at fair value prior to securitization. Net revenues related to these underwriting activities are recognized in connection with the sales of the underlying beneficial interests to investors.

The firm may retain interests in securitized financial assets. Retained interests are accounted for at fair value and included in Total financial instruments owned, at fair value in the condensed consolidated statements of financial condition.

During the three months ended February 2006 and February 2005, the firm securitized $19.25 billion and $15.24 billion, respectively, of financial assets, including $18.15 billion and $14.43 billion, respectively, of residential mortgage loans and securities. Cash flows received on retained interests were approximately $211 million and $208 million for the three months ended February 2006 and February 2005, respectively.

As of February 2006 and November 2005, the firm held $5.79 billion and $6.07 billion of retained interests, respectively, including $5.37 billion and $5.62 billion, respectively, held in QSPEs. The fair value of retained interests valued using quoted market prices in active markets was $1.95 billion and $1.34 billion as of February 2006 and November 2005, respectively.

The following table sets forth the weighted average key economic assumptions used in measuring retained interests for which fair value is based on alternative pricing sources with reasonable, little or no price transparency and the sensitivity of those fair values to immediate adverse changes of 10% and 20% in those assumptions:

	As of February 2006		As of November 2005	
	Type of Retained Interests		Type of Retained Interests	
	Mortgage-Backed	Corporate Debt and Other (3)	Mortgage-Backed	Corporate Debt and Other (3)
	($ in millions)			
Fair value of retained interests	$2,357	$ 1,482	$2,928	$ 1,799
Weighted average life (years)	6.2	3.7	5.7	5.1
Annual constant prepayment rate	23.7%	N/A	18.6%	N/A
Impact of 10% adverse change	$ (30)	$	$ (44)	$
Impact of 20% adverse change	(49)		(73)	
Annual credit losses (1)	3.0%	2.8%	5.0%	2.5%
Impact of 10% adverse change (2)	$ (44)	$ (3)	$ (25)	$ (4)
Impact of 20% adverse change (2)	(81)	(5)	(48)	(9)
Annual discount rate	8.8%	5.8%	7.4%	6.5%
Impact of 10% adverse change	$ (76)	$ (11)	$ (70)	$ (13)
Impact of 20% adverse change	(146)	(25)	(136)	(29)

(1)

Annual percentage credit loss is based only on positions in which expected credit loss is a key assumption in the determination of fair values.

(2) The impacts of adverse change take into account credit mitigants incorporated in the retained interests, including over-collateralization and subordination provisions.

(3) Includes retained interests in bonds and other types of financial assets that are not subject to prepayment risk.

The preceding table does not give effect to the offsetting benefit of other financial instruments that are held to hedge risks inherent in these retained interests. Changes in fair value based on an adverse variation in assumptions generally cannot be extrapolated because the relationship of the change in assumptions to the change in fair value is not usually linear. In addition, the impact of a change in a particular assumption is calculated independently of changes in any other assumption.

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In practice, simultaneous changes in assumptions might magnify or counteract the sensitivities disclosed above.

In addition to the retained interests described above, the firm also held interests in residential mortgage QSPEs purchased in connection with secondary market-making activities. These purchased interests approximated $6 billion and $5 billion as of February 2006 and November 2005, respectively.

In connection with the issuance of asset-repackaged notes to investors, the firm had derivative receivables from QSPEs, to which the firm has transferred assets, with a fair value of $97 million and $108 million as of February 2006 and November 2005, respectively. These receivables are collateralized by a first-priority interest in the assets held by each QSPE.

Variable Interest Entities (VIEs)

The firm, in the ordinary course of its business, retains interests in VIEs in connection with its securitization activities. The firm also purchases and sells variable interests in VIEs, which primarily issue mortgage-backed and other asset-backed securities and collateralized debt obligations (CDOs), in connection with its market-making activities and makes investments in and loans to VIEs that hold performing and nonperforming debt, equity, real estate, power-related and other assets. In addition, the firm utilizes VIEs to provide investors with credit-linked and asset-repackaged notes designed to meet their objectives.

VIEs generally purchase assets by issuing debt and equity instruments. In certain instances, the firm provides guarantees to VIEs or holders of variable interests in VIEs. In such cases, the maximum exposure to loss included in the tables set forth below is the notional amount of such guarantees. Such amounts do not represent anticipated losses in connection with these guarantees.

The firm s variable interests in VIEs include senior and subordinated debt; limited and general partnership interests; preferred and common stock; interest rate, foreign currency, equity, commodity and credit derivatives; guarantees; and residual interests in mortgage-backed and asset-backed securitization vehicles and CDOs. The firm s exposure to the obligations of VIEs is generally limited to its interests in these entities.

The following table sets forth the firm s total assets and maximum exposure to loss associated with its significant variable interests in consolidated VIEs where the firm does not hold a majority voting interest:

	As of	
	February 2006	**November 2005**
	(in millions)	
Consolidated VIE assets [1]	$ 7,155	$ 6,624
Maximum exposure to loss	4,469	3,944

[1] Consolidated VIE assets include assets financed by nonrecourse short-term and long-term debt. Nonrecourse debt is debt that only the issuing subsidiary or, if applicable, a subsidiary guaranteeing the debt is obligated to repay.

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The following tables set forth total assets in nonconsolidated VIEs in which the firm holds significant variable interests and the firm s maximum exposure to loss associated with these interests:

		As of February 2006 Maximum Exposure to Loss in Nonconsolidated VIEs				
	VIE Assets	**Purchased and Retained Interests**	**Commitments and Guarantees**	**Derivatives**	**Loans and Investments**	**Total**
			(in millions)			
Collateralized debt obligations	$ 21,985	$ 544	$	$ 2,312	$	$ 2,856
Asset repackagings and credit-linked notes	2,879			1,797		1,797
Power-related	5,024	2	92		1,008	1,102
Investments in loans and real estate	14,041		12		1,216	1,228
Mortgage-backed and other asset-backed	6,489	189	190	55	526	960
Total	$ 50,418	$ 735	$ 294	$ 4,164	$ 2,750	$ 7,943

		As of November 2005 Maximum Exposure to Loss in Nonconsolidated VIEs				
	VIE Assets	**Purchased and Retained Interests**	**Commitments and Guarantees**	**Derivatives**	**Loans and Investments**	**Total**
			(in millions)			
Collateralized debt obligations	$ 19,437	$ 780	$	$ 2,074	$	$ 2,854
Asset repackagings and credit-linked notes	2,568			1,527		1,527
Power-related	6,667	2	95		1,070	1,167
Investments in loans and real estate	14,232		11		1,082	1,093
Mortgage-backed and other asset-backed	6,378	208	248	52	426	934
Total	$ 49,282	$ 990	$ 354	$ 3,653	$ 2,578	$ 7,575

Secured Borrowing and Lending Activities

The firm obtains secured short-term financing principally through the use of repurchase agreements, securities lending agreements and other financings. In these transactions, the firm receives cash or securities in exchange for other securities, including U.S. government, federal agency and sovereign obligations, corporate debt and other debt obligations, equities and convertibles, letters of credit and other assets.

The firm obtains securities as collateral principally through the use of resale agreements, securities borrowing agreements, derivative transactions, customer margin loans and other secured

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borrowing activities to finance inventory positions, to meet customer needs and to satisfy settlement requirements. In many cases, the firm is permitted to sell or repledge securities held as collateral. These securities may be used to secure repurchase agreements, to enter into securities lending or derivative transactions, or to cover short positions. As of February 2006 and November 2005, the fair value of securities received as collateral by the firm that it was permitted to sell or repledge was $679.73 billion and $629.94 billion, respectively, of which the firm sold or repledged $590.14 billion and $550.33 billion, respectively.

The firm also pledges securities it owns. Counterparties may or may not have the right to sell or repledge the securities. Securities owned and pledged to counterparties that have the right to sell or repledge are reported as Financial instruments owned and pledged as collateral, at fair value in the condensed consolidated statements of financial condition and were $42.47 billion and $38.98 billion as of February 2006 and November 2005, respectively. Securities owned and pledged in connection with repurchase and securities lending agreements to counterparties that did not have the right to sell or repledge are included in Financial instruments owned, at fair value in the condensed consolidated statements of financial condition and were $93.24 billion and $93.90 billion as of February 2006 and November 2005, respectively.

In addition to repurchase and securities lending agreements, the firm also pledges securities and other assets it owns to counterparties that do not have the right to sell or repledge, in order to collateralize secured short-term and long-term borrowings. In connection with these transactions, the firm pledged assets of $30.53 billion and $27.84 billion as collateral as of February 2006 and November 2005, respectively. See Note 4 and Note 5 for further information regarding the firm s secured short-term and long-term borrowings.

Note 4. Short-Term Borrowings

The firm obtains short-term borrowings primarily through the use of promissory notes, commercial paper, secured debt and bank loans. As of February 2006 and November 2005, secured short-term borrowings were $8.48 billion and $7.97 billion, respectively. Unsecured short-term borrowings were $49.87 billion and $47.25 billion as of February 2006 and November 2005, respectively. Short-term borrowings also include the portion of long-term borrowings maturing within one year of the financial statement date and certain long-term borrowings that are redeemable within one year of the financial statement date at the option of the holder. The carrying value of these short-term obligations approximates fair value due to their short-term nature.

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Short-term borrowings are set forth below:

	As of	
	February 2006	**November 2005**
	(in millions)	
Promissory notes	$ 18,996	$ 17,339
Commercial paper	5,533	5,154
Secured debt, bank loans and other	16,352	15,975
Current portion of secured and unsecured long-term borrowings	17,471	16,751
Total (1)(2)	$ 58,352	$ 55,219

(1) As of February 2006 and November 2005, the weighted average interest rates for short-term borrowings, including commercial paper, were 4.37% and 3.98%, respectively. The weighted average interest rates, after giving effect to hedging activities, were 4.33% and 3.86% as of February 2006 and November 2005, respectively.

(2) Short-term borrowings as of February 2006 include $325 million of hybrid financial instruments accounted for at fair value under SFAS No. 155.

Note 5. Long-Term Borrowings

The firm obtains secured and unsecured long-term borrowings, which consist principally of senior borrowings with maturities extending to 2035. As of February 2006 and November 2005, secured long-term borrowings were $18.52 billion and $15.67 billion, respectively. Unsecured long-term borrowings were $96.13 billion and $84.34 billion as of February 2006 and November 2005, respectively.

Long-term borrowings are set forth below:

	As of	
	February 2006	**November 2005**
	(in millions)	
Fixed rate obligations (1)		
U.S. dollar	$ 38,442	$ 35,530
Non-U.S. dollar	17,271	16,224
Floating rate obligations (2)		
U.S. dollar	38,471	31,952
Non-U.S. dollar	20,467	16,301
Total (3)	$ 114,651	$ 100,007

(1) As of both February 2006 and November 2005, interest rates on U.S. dollar fixed rate obligations ranged from 3.72% to 12.00%. As of February 2006 and November 2005, interest rates on non-U.S. dollar fixed rate obligations ranged from 0.50% to 8.88% and from 0.65% to 8.88%, respectively.

(2) Floating interest rates generally are based on LIBOR or the federal funds rate. Certain equity-linked and indexed instruments are included in floating rate obligations.

(3) Long-term borrowings as of February 2006 include $835 million of hybrid financial instruments accounted for at fair value under SFAS No. 155.

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Long-term borrowings include nonrecourse debt issued by the following subsidiaries, as set forth in the table below. Nonrecourse debt is debt that only the issuing subsidiary or, if applicable, a subsidiary guaranteeing the debt is obligated to repay.

	As of	
	February 2006	November 2005
	(in millions)	
William Street Funding Corporation	$ 7,115	$ 5,107
Variable interest entities	6,688	5,568
Other subsidiaries	2,533	2,951
Total [1]	$ 16,336	$ 13,626

[1] Includes $1.05 billion and $1.33 billion of nonrecourse debt related to the firm s consolidated power generation facilities as of February 2006 and November 2005, respectively.

Long-term borrowings by fiscal maturity date are set forth below:

	As of					
	February 2006 [1] [2]			November 2005 [1] [2]		
	U.S. Dollar	Non-U.S. Dollar	Total	U.S. Dollar	Non-U.S. Dollar	Total
	(in millions)					
2007	$ 12,148	$ 521	$ 12,669	$ 13,662	$ 861	$ 14,523
2008	9,381	2,870	12,251	6,218	2,872	9,090
2009	11,510	3,160	14,670	9,241	3,094	12,335
2010	6,276	8,364	14,640	6,411	7,698	14,109
2011	5,659	2,166	7,825	4,840	1,430	6,270
2012-thereafter	31,939	20,657	52,596	27,110	16,570	43,680
Total	$ 76,913	$ 37,738	$ 114,651	$ 67,482	$ 32,525	$ 100,007

[1] Long-term borrowings maturing within one year of the financial statement date and certain long-term borrowings that are redeemable within one year of the financial statement date at the option of the holder are included as short-term borrowings in the condensed consolidated statements of financial condition.

(2) Long-term borrowings that are repayable prior to maturity at the option of the firm are reflected at their contractual maturity dates. Long-term borrowings that are redeemable prior to maturity at the option of the holder are reflected at the dates such options become exercisable.

The firm enters into derivative contracts, such as interest rate futures contracts, interest rate swap agreements, currency swap agreements, equity-linked and indexed contracts, to effectively convert a substantial portion of its long-term borrowings into U.S. dollar-based floating rate obligations. Accordingly, the aggregate carrying value of these long-term borrowings and related hedges approximates fair value.

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The effective weighted average interest rates for long-term borrowings, after hedging activities, are set forth below:

	As of			
	February 2006		November 2005	
	Amount	Rate	Amount	Rate
	($ in millions)			
Fixed rate obligations	$ 2,842	5.93%	$ 3,468	5.48%
Floating rate obligations	111,809	4.78	96,539	4.31
Total	$ 114,651	4.81	$ 100,007	4.35

Deferrable Interest Junior Subordinated Debentures

In February 2004, Goldman Sachs Capital I (the Trust), a wholly owned Delaware statutory trust, was formed by the firm for the exclusive purposes of (i) issuing $2.75 billion of guaranteed preferred beneficial interests and $85 million of common beneficial interests in the Trust, (ii) investing the proceeds from the sale to purchase junior subordinated debentures from Group Inc. and (iii) engaging in only those other activities necessary or incidental to these purposes. The preferred beneficial interests were purchased by third parties, and, as of February 2006 and November 2005, the firm held all of the common beneficial interests.

The Trust is a wholly owned finance subsidiary of the firm for legal and regulatory purposes. However, for accounting purposes, under FIN No. 46-R, the Trust is not a consolidated subsidiary of the firm because the firm s ownership of the common beneficial interest is not considered at risk, since the Trust s principal asset is the $2.84 billion of junior subordinated debentures issued by the firm. The firm pays interest semiannually on these debentures at an annual rate of 6.345% and the debentures mature on February 15, 2034. The coupon rate and payment dates applicable to the beneficial interests are the same as the interest rate and payment dates applicable to the debentures. See Note 6 for further information regarding the firm s guarantee of the preferred beneficial interests issued by the Trust.

The firm has the right, from time to time, to defer payment of interest on the junior subordinated debentures, and, therefore, cause payment of dividends on the Trust s preferred beneficial interests to be deferred, in each case for up to ten consecutive semiannual periods, and during any such extension period Group Inc. will not be permitted to, among other things, pay dividends on or make certain repurchases of its common stock. The Trust is not permitted to pay any distributions on the common beneficial interests held by the firm unless all dividends payable on the preferred beneficial interests have been paid in full.

Note 6. Commitments, Contingencies and Guarantees

Commitments

Forward Secured Financings. The firm had commitments to enter into forward secured financing transactions, including certain repurchase and resale agreements and secured borrowing and lending arrangements, of $52.36 billion and $49.93 billion as of February 2006 and November 2005, respectively.

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Commitments to Extend Credit. In connection with its lending activities, the firm had outstanding commitments of $58.42 billion and $61.12 billion as of February 2006 and November 2005, respectively. The firm s commitments to extend credit are agreements to lend to counterparties that have fixed termination dates and are contingent on the satisfaction of all conditions to borrowing set forth in the contract. Since these commitments may expire unused, the total commitment amount does not necessarily reflect the actual future cash flow requirements. The firm accounts for these commitments at fair value.

The following table summarizes the firm s commitments to extend credit at February 2006 and November 2005:

Commitments to Extend Credit
(in millions)

	As of	
	February 2006	**November 2005**
William Street program	$ 14,943	$ 14,505
Other commercial lending commitments		
Investment-grade	11,894	17,592
Non-investment-grade	15,650	18,536
Warehouse financing	15,934	10,489
Total commitments to extend credit	$ 58,421	$ 61,122

William Street program. Substantially all of the commitments provided under the William Street credit extension program are to investment-grade corporate borrowers. Commitments under the William Street credit extension program are issued by William Street Commitment Corporation (Commitment Corp.), a consolidated wholly owned subsidiary of Group Inc. whose assets and liabilities are legally separated from other assets and liabilities of the firm, and also by other subsidiaries of Group Inc. William Street Funding Corporation (Funding Corp.), another consolidated wholly owned subsidiary of Group Inc. whose assets and liabilities are legally separated from other assets and liabilities of the firm, was formed to raise funding to support the William Street credit extension program. The assets of Commitment Corp. and of Funding Corp. will not be available to their respective shareholders until the claims of their respective creditors have been paid. In addition, no affiliate of either Commitment Corp. or Funding Corp., except in limited cases as expressly agreed in writing, is responsible for any obligation of either entity. With respect to these commitments, the firm has credit loss protection provided to it by SMFG, which is generally limited to 95% of the first loss the firm realizes on approved loan commitments, subject to a maximum of $1.00 billion. In addition, subject to the satisfaction of certain conditions, upon the firm s request, SMFG will provide protection for 70% of the second loss on such commitments, subject to a maximum of $1.13 billion. The firm also uses other financial instruments to hedge certain William Street commitments not covered by SMFG.

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Other commercial lending commitments. In addition to the commitments issued under the William Street credit extension program, the firm extends other credit commitments, primarily in connection with contingent acquisition financing and other types of corporate lending. As part of its ongoing credit origination activities, the firm may reduce its credit risk on commitments by syndicating all or substantial portions to other investors. Additionally, commitments that are extended for contingent acquisition financing are often short-term in nature, as borrowers often replace them with other funding sources.

Warehouse financing. The firm provides financing for the warehousing of financial assets to be securitized, primarily in connection with CDOs and mortgage securitizations. These financings are expected to be repaid from the proceeds of the related securitizations, for which the firm may or may not act as underwriter. These arrangements are secured by the warehoused assets, primarily consisting of mortgage-backed and other asset-backed securities, residential and commercial mortgages and corporate debt instruments.

Letters of Credit. The firm provides letters of credit issued by various banks to counterparties in lieu of securities or cash to satisfy various collateral and margin deposit requirements. Letters of credit outstanding were $8.16 billion and $9.23 billion as of February 2006 and November 2005, respectively.

Merchant Banking Commitments. The firm acts as an investor in merchant banking transactions, which includes making long-term investments in equity and debt securities in privately negotiated transactions, corporate acquisitions and real estate transactions. In connection with these activities, the firm had commitments to invest up to $4.38 billion and $3.54 billion in corporate and real estate investment funds as of February 2006 and November 2005, respectively.

Construction-Related Commitments. As of February 2006 and November 2005, the firm had construction-related commitments of $1.17 billion and $579 million, respectively, including commitments of $1.03 billion and $481 million, respectively, related to the development of wind energy projects. Construction-related commitments also include outstanding commitments of $79 million and $47 million as of February 2006 and November 2005, respectively, related to the firm s new world headquarters in New York City, expected to cost between $2.3 billion and $2.5 billion.

Underwriting Commitments. As of February 2006, the firm had commitments to purchase $2.88 billion of securities in connection with its underwriting activities.

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Other. In January 2006, the firm entered into a definitive agreement to invest $2.58 billion in Industrial and Commercial Bank of China Limited (ICBC), with investment funds managed by the firm assuming a substantial portion of the firm s economic interest. The transaction is expected to close during the firm s second fiscal quarter of 2006, subject to the receipt of regulatory approvals and other closing conditions.

The firm had other purchase commitments of $914 million and $644 million as of February 2006 and November 2005, respectively.

Leases. The firm has contractual obligations under long-term noncancelable lease agreements, principally for office space, expiring on various dates through 2069. Certain agreements are subject to periodic escalation provisions for increases in real estate taxes and other charges. Future minimum rental payments, net of minimum sublease rentals, are set forth below:

	(in millions)
Minimum rental payments	
Remainder of 2006	$ 302
2007	553
2008	354
2009	354
2010	267
2011-thereafter	2,199
Total	$ 4,029

Contingencies

The firm is involved in a number of judicial, regulatory and arbitration proceedings concerning matters arising in connection with the conduct of its businesses. Management believes, based on currently available information, that the results of such proceedings, in the aggregate, will not have a material adverse effect on the firm s financial condition, but may be material to the firm s operating results for any particular period, depending, in part, upon the operating results for such period. Given the inherent difficulty of predicting the outcome of the firm s litigation and regulatory matters, particularly in cases or proceedings in which substantial or indeterminate damages or fines are sought, the firm cannot estimate losses or ranges of losses for cases or proceedings where there is only a reasonable possibility that a loss may be incurred.

The firm is contingently liable to provide guaranteed mortality benefits in connection with its insurance business. The net amount at risk, representing guaranteed mortality benefits in force under annuity contracts in excess of contract holder account balances, was $1.5 billion as of February 2006. The average attained age of contract holders was 70 years as of February 2006.

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Guarantees

The firm enters into various derivative contracts that meet the definition of a guarantee under FIN No. 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others. Such derivative contracts include credit default swaps, written equity and commodity put options, written currency contracts and interest rate caps, floors and swaptions. FIN No. 45 does not require disclosures about derivative contracts if such contracts may be cash settled and the firm has no basis to conclude it is probable that the counterparties held, at inception, the underlying instruments related to the derivative contracts. The firm has concluded that these conditions have been met for certain large, internationally active commercial and investment bank end users and certain other users. Accordingly, the firm has not included such contracts in the tables below.

The firm, in its capacity as an agency lender, indemnifies most of its securities lending customers against losses incurred in the event that borrowers do not return securities and the collateral held is insufficient to cover the market value of the securities borrowed. In connection with certain asset sales and securitization transactions, the firm guarantees the collection of contractual cash flows. In connection with its merchant banking activities, the firm may issue loan guarantees to secure financing. In addition, the firm provides letters of credit and other guarantees, on a limited basis, to enable clients to enhance their credit standing and complete transactions.

In connection with the firm s establishment of the Trust, Group Inc. effectively provided for the full and unconditional guarantee of the beneficial interests in the Trust held by third parties. Timely payment by Group Inc. of interest on the junior subordinated debentures and other amounts due and performance of its other obligations under the transaction documents will be sufficient to cover payments due by the Trust on its beneficial interests. As a result, management believes that it is unlikely the firm will have to make payments related to the Trust other than those required under the junior subordinated debentures and in connection with certain expenses incurred by the Trust.

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The following tables set forth certain information about the firm s derivative contracts that meet the definition of a guarantee and certain other guarantees as of February 2006 and November 2005:

		As of February 2006 Maximum Payout/Notional Amount by Period of Expiration [4]				
	Carrying Value	**Remainder of 2006**	**2007-2008**	**2009-2010**	**2011-Thereafter**	**Total**
			(in millions)			
Derivatives [1]	$ 5,826	$ 310,519	$ 296,942	$ 267,052	$ 397,243	$ 1,271,756
Securities lending indemnifications [2]		15,659				15,659
Guarantees of trust preferred beneficial interest [3]		87	349	349	6,851	7,636
Guarantee of the collection of contractual cash flows		4	141	1	20	166
Merchant banking fund-related commitments		34	24	5	57	120
Letters of credit and other guarantees	6	429	144	9	91	673

		As of November 2005 Maximum Payout/Notional Amount by Period of Expiration [4]				
	Carrying Value	**2006**	**2007-2008**	**2009-2010**	**2011-Thereafter**	**Total**
			(in millions)			
Derivatives [1]	$ 8,217	$ 356,131	$ 244,163	$ 259,332	$ 289,459	$ 1,149,085
Securities lending indemnifications [2]		16,324				16,324
Guarantees of trust preferred beneficial interest [3]		174	349	349	6,851	7,723
Guarantee of the collection of contractual cash flows		147	2	95	20	264
Merchant banking fund-related commitments		15	23	6	56	100
Letters of credit and other guarantees	4	354	119	129	101	703

(1) The carrying value excludes the effect of a legal right of setoff that may exist under an enforceable netting agreement.

(2) Collateral held by the lenders in connection with securities lending indemnifications was $16.26 billion and $16.89 billion as of February 2006 and November 2005, respectively.

(3) Includes the guarantee of all payments scheduled to be made over the life of the Trust, which could be shortened in the event the firm redeemed the junior subordinated debentures issued to fund the Trust. (See Note 5 for further information regarding the Trust.)

(4) Such amounts do not represent the anticipated losses in connection with these contracts.

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In the normal course of its business, the firm indemnifies and guarantees certain service providers, such as clearing and custody agents, trustees and administrators, against specified potential losses in connection with their acting as an agent of, or providing services to, the firm or its affiliates. The firm also indemnifies some clients against potential losses incurred in the event specified third-party service providers, including sub-custodians and third-party brokers, improperly execute transactions. In addition, the firm is a member of payment, clearing and settlement networks as well as securities exchanges around the world that may require the firm to meet the obligations of such networks and exchanges in the event of member defaults. In connection with its prime brokerage and clearing businesses, the firm agrees to clear and settle on behalf of its clients the transactions entered into by them with other brokerage firms. The firm s obligations in respect of such transactions are secured by the assets in the client s account as well as any proceeds received from the transactions cleared and settled by the firm on behalf of the client. In connection with joint venture investments, the firm may issue loan guarantees under which it may be liable in the event of fraud, misappropriation, environmental liabilities and certain other matters involving the borrower. The firm is unable to develop an estimate of the maximum payout under these guarantees and indemnifications. However, management believes that it is unlikely the firm will have to make any material payments under these arrangements, and no liabilities related to these guarantees and indemnifications have been recognized in the condensed consolidated statements of financial condition as of February 2006 and November 2005.

The firm provides representations and warranties to counterparties in connection with a variety of commercial transactions and occasionally indemnifies them against potential losses caused by the breach of those representations and warranties. The firm may also provide indemnifications protecting against changes in or adverse application of certain U.S. tax laws in connection with ordinary-course transactions such as securities issuances, borrowings or derivatives. In addition, the firm may provide indemnifications to some counterparties to protect them in the event additional taxes are owed or payments are withheld, due either to a change in or an adverse application of certain non-U.S. tax laws. These indemnifications generally are standard contractual terms and are entered into in the normal course of business. Generally, there are no stated or notional amounts included in these indemnifications, and the contingencies triggering the obligation to indemnify are not expected to occur. The firm is unable to develop an estimate of the maximum payout under these guarantees and indemnifications. However, management believes that it is unlikely the firm will have to make any material payments under these arrangements, and no liabilities related to these arrangements have been recognized in the condensed consolidated statements of financial condition as of February 2006 and November 2005.

Note 7. Shareholders Equity

On March 13, 2006, the Board of Directors of Group Inc. (the Board) declared a dividend of $0.35 per share to be paid on May 25, 2006, to common shareholders of record on April 25, 2006.

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As of February 2006, the firm had 70,000 shares of preferred stock outstanding in three series as set forth in the following table:

Preferred Stock by Series

Series	Description	Shares Issued	Shares Authorized	Earliest Redemption Date	Redemption Value (in millions)
A	Perpetual Floating Rate Non-Cumulative	30,000	50,000	April 25, 2010	$ 750
B	Perpetual 6.20% Non-Cumulative	32,000	50,000	October 31, 2010	800
C	Perpetual Floating Rate Non-Cumulative	8,000	25,000	October 31, 2010	200
		70,000	125,000		$ 1,750

Each share of preferred stock has a par value of $0.01, has a liquidation preference of $25,000, is represented by 1,000 depositary shares and is redeemable at the firm s option at a redemption price equal to $25,000 plus declared and unpaid dividends. The firm s ability to declare or pay dividends on, or purchase, redeem or otherwise acquire, its common stock is subject to certain restrictions in the event that the firm fails to pay or set aside full dividends on the preferred stock for the latest completed dividend period. All preferred stock also has a preference over the firm s common stock upon liquidation.

On March 13, 2006 the Board declared a dividend per preferred share of $338.08, $387.50 and $338.08 for Series A, Series B and Series C preferred stock, respectively, to be paid on May 10, 2006 to preferred shareholders of record on April 25, 2006.

During the three months ended February 2006, the firm repurchased 19.1 million shares of its common stock at a total cost of $2.58 billion. The average price paid per share for repurchased shares was $134.75 for the three months ended February 2006. In addition, to satisfy minimum statutory employee tax withholding requirements related to the delivery of shares underlying restricted stock units, the firm cancelled 2.9 million restricted stock units at a total cost of $371 million in the first quarter of 2006.

The following table sets forth the firm s accumulated other comprehensive income by type:

	As of	
	February 2006	November 2005
	(in millions)	
Currency translation adjustment, net of tax	$ 1	$ (16)
Minimum pension liability adjustment, net of tax	(11)	(11)

Net gains on cash flow hedges, net of tax		10		9
Net unrealized holding gains, net of tax		15(1)		18
Total accumulated other comprehensive income, net of tax	$	15	$	

(1) Consists of net unrealized losses of $2 million on available-for-sale securities held by the firm s insurance subsidiaries and net unrealized gains of $17 million on available-for-sale securities held by investees accounted for under the equity method.

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Note 8. Earnings Per Common Share

The computations of basic and diluted earnings per common share are set forth below:

	Three Months Ended February	
	2006	2005
	(in millions, except per share amounts)	
Numerator for basic and diluted EPS net earnings applicable to common shareholders	$ 2,453	$ 1,512
Denominator for basic EPS weighted average number of common shares	457.3	494.3
Effect of dilutive securities		
Restricted stock units	10.9	7.8
Stock options	15.1	13.0
Dilutive potential common shares	26.0	20.8
Denominator for diluted EPS weighted average number of common shares and dilutive potential common shares [1]	483.3	515.1
Basic EPS	$ 5.36	$ 3.06
Diluted EPS	5.08	2.94

[1] The diluted EPS computations do not include the antidilutive effect of the following options:

	Three Months Ended February	
	2006	2005
	(in millions)	
Number of antidilutive options, end of period		1

Note 9. Goodwill and Identifiable Intangible Assets

Goodwill

As of February 2006 and November 2005, goodwill of $3.12 billion and $3.15 billion, respectively, was included in Other assets in the condensed consolidated statements of financial condition.

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Identifiable Intangible Assets

The following table sets forth the gross carrying amount, accumulated amortization and net carrying amount of identifiable intangible assets:

		As of	
		February 2006	November 2005
		(in millions)	
Customer lists (1)	Gross carrying amount	$ 1,021	$ 1,021
	Accumulated amortization	(257)	(244)
	Net carrying amount	$ 764	$ 777
Power contracts (2)	Gross carrying amount	$ 739	$ 497
	Accumulated amortization	(20)	(16)
	Net carrying amount	$ 719	$ 481
New York Stock Exchange (NYSE) specialist rights	Gross carrying amount	$ 714	$ 714
	Accumulated amortization	(142)	(134)
	Net carrying amount	$ 572	$ 580
Value of business acquired (VOBA) (3)	Gross carrying amount	$ 279	$
	Accumulated amortization		
	Net carrying amount	$ 279	$
Exchange-traded fund (ETF) specialist rights	Gross carrying amount	$ 138	$ 138
	Accumulated amortization	(29)	(27)
	Net carrying amount	$ 109	$ 111
Other (4)	Gross carrying amount	$ 314	$ 312
	Accumulated amortization	(214)	(206)

	Net carrying amount	$ 100	$ 106
Total	Gross carrying amount	$ 3,205	$ 2,682
	Accumulated amortization	(662)	(627)
	Net carrying amount	$ 2,543	$ 2,055

(1) Primarily includes the firm s clearance and execution and NASDAQ customer lists related to SLK LLC (SLK) and financial counseling customer lists related to The Ayco Company, L.P.

(2) Primarily relates to above-market power contracts of consolidated power generation facilities related to Cogentrix Energy, Inc. and National Energy & Gas Transmission, Inc. (NEGT). Substantially all of these power contracts have been pledged as collateral to counterparties in connection with certain of the firm s secured short-term and long-term borrowings. The weighted average remaining life of these power contracts is approximately 11 years.

(3) Represents the present value of estimated future gross profits of the variable annuity and variable life insurance business acquired in fiscal 2006. VOBA is amortized over the estimated life of the underlying contracts based on estimated gross profits, and amortization is adjusted based on actual experience. The weighted average remaining amortization period for VOBA is seven years as of the end of the first quarter.

(4) Primarily includes technology-related and other assets related to SLK.

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Identifiable intangible assets are amortized over their estimated useful lives. The weighted average remaining life of the firm s identifiable intangibles is approximately 13 years. There were no identifiable intangible assets that were considered to be indefinite-lived and, therefore, not subject to amortization.

The estimated future amortization for existing identifiable intangible assets through 2011 is set forth below:

	(in millions)
Remainder of 2006	$ 208
2007	228
2008	201
2009	193
2010	187
2011	182

Note 10. Other Assets and Other Liabilities

Other Assets

Other assets are generally less liquid, nonfinancial assets. The following table sets forth the firm s other assets by type:

	As of	
	February 2006	November 2005
	(in millions)	
Goodwill and identifiable intangible assets [1]	$ 5,667	$ 5,203
Property, leasehold improvements and equipment [2]	5,505	5,097
Equity-method investments and joint ventures	2,393	2,965
Income tax-related assets	1,403	1,304
Miscellaneous receivables and other	3,974	2,743
Total	$ 18,942	$ 17,312

(1) See Note 9 for further information regarding the firm s goodwill and identifiable intangible assets.

(2) Net of accumulated depreciation and amortization of $4.80 billion and $4.62 billion for February 2006 and November 2005, respectively.

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Other Liabilities

Other liabilities and accrued expenses primarily includes insurance-related liabilities, compensation and benefits, minority interest in consolidated entities, litigation liabilities, tax-related payables, deferred revenue and other payables. The following table sets forth the firm s other liabilities and accrued expenses by type:

	As of	
	February 2006	November 2005
	(in millions)	
Separate account liabilities [1]	$ 8,595	$
Compensation and benefits	5,325	6,598
Minority interest	3,507	3,164
Other insurance-related liabilities [2]	2,428	
Accrued expenses and other payables	4,962	4,068
Total	$ 24,817	$ 13,830

(1) Offsetting separate account assets, representing segregated contract holder funds under variable annuity and variable life insurance contracts, are included in Cash and securities segregated for regulatory and other purposes in the condensed consolidated statements of financial condition.

(2) Consists of $2.12 billion of contract holder account balances and liabilities for future benefits and $310 million in reserves for guaranteed minimum death and income benefits on variable annuity contracts. Such reserves represent estimates, under multiple scenarios, of future guaranteed benefits expected to be paid less future fees expected to be earned. Related to the $2.12 billion is a receivable of $805 million for risks ceded to reinsurers included in Receivables from customers and counterparties in the condensed consolidated statements of financial condition. Reinsurance contracts do not relieve the firm from its obligations to contract holders.

Note 11. Employee Benefit Plans

The firm sponsors various pension plans and certain other postretirement benefit plans, primarily healthcare and life insurance. The firm also provides certain benefits to former or inactive employees prior to retirement.

Defined Benefit Pension Plans and Postretirement Plans

The firm maintains a defined benefit pension plan for substantially all U.S. employees hired prior to November 1, 2003. As of November 2004, this plan has been closed to new participants and no further benefits will be accrued to existing participants. Employees of certain non-U.S. subsidiaries participate in various local defined benefit pension plans. These plans generally provide benefits based on years of credited service and a percentage of the employee s eligible compensation. In addition, the firm has unfunded postretirement benefit plans that provide medical and life insurance for eligible retirees and their dependents covered under the U.S. benefits program.

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The components of pension expense/(income) and postretirement expense are set forth below:

	Three Months Ended February	
	2006	**2005**
	(in millions)	
U.S. pension		
Service cost	$	$
Interest cost	5	5
Expected return on plan assets	(7)	(7)
Net amortization	2	2
Total	$	$
Non-U.S. pension		
Service cost	$ 14	$ 11
Interest cost	6	5
Expected return on plan assets	(7)	(6)
Net amortization	3	3
Other [1]		(17)
Total	$ 16	$ (4)
Postretirement		
Service cost	$ 4	$ 3
Interest cost	5	3
Net amortization	5	1
Total	$ 14	$ 7

(1) Represents a benefit as a result of the termination of a Japanese pension plan.

The firm expects to contribute a minimum of $13 million to its pension plans and $7 million to its postretirement plans in fiscal 2006.

Note 12. Employee Incentive Plans

Stock Incentive Plan

The firm sponsors a stock incentive plan, The Goldman Sachs Amended and Restated Stock Incentive Plan (the Amended SIP), which provides for grants of incentive stock options, nonqualified stock options, stock appreciation rights, dividend equivalent rights, restricted stock, restricted stock units and other share-based awards. In the second quarter of fiscal 2003, the Amended SIP was approved by the firm s shareholders, effective for grants after April 1, 2003, and no further awards were or will be made under the original plan after that date, although awards granted under the original plan prior to that date remain outstanding.

The total number of shares of common stock that may be issued under the Amended SIP through fiscal 2008 may not exceed 250 million shares and, in each fiscal year thereafter, may not exceed 5% of the issued and outstanding shares of common stock, determined as of the last day of the immediately preceding fiscal year, increased by the number of shares available for awards in previous fiscal years but not covered by awards granted in such years. As of February 2006 and

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November 2005, 195.6 million and 196.6 million shares were available for grant under the Amended SIP.

Restricted Stock Units

The firm issued restricted stock units to employees under the Amended SIP, primarily in connection with year-end compensation and acquisitions. Of the total restricted stock units outstanding as of February 2006 and November 2005, (i) 29.3 million units and 30.1 million units, respectively, required future service as a condition to the delivery of the underlying shares of common stock and (ii) 18.4 million units and 25.0 million units, respectively, did not require future service. In all cases, delivery of the underlying shares of common stock is conditioned on the grantees satisfying certain other requirements outlined in the award agreements. When delivering the underlying shares to employees, the firm generally issues new shares of common stock, as opposed to reissuing treasury shares.

The activity related to these restricted stock units is set forth below:

	Restricted Stock Units Outstanding		Weighted Average Grant-Date Fair Value of Restricted Stock Units Outstanding	
	Future Service Required	No Future Service Required	Future Service Required	No Future Service Required
Outstanding, November 2005 (1)	30,117,820	24,993,866	$ 112.01	$ 107.18
Granted (2) (3)	283,068	137,973	133.25	137.88
Forfeited	(63,442)	(158,429)	103.05	98.07
Delivered		(7,661,278)		90.80
Vested (3)	(1,051,747)	1,051,747	106.11	106.11
Outstanding, February 2006	29,285,699	18,363,879	$ 112.44	$ 114.35

(1) Includes restricted stock units granted to employees in the three month period ended February 2006 as part of compensation for fiscal 2005.

(2) The weighted average grant-date fair value of restricted stock units granted for the three months ended February 2006 was $134.76 per unit, compared with $109.28 per unit for the same prior year period.

(3) The aggregate fair value of awards vested during the period was $155 million.

Stock Options

As of November 2004, all stock options granted to employees in May 1999 in connection with the firm s initial public offering became fully vested and exercisable. Stock options granted to employees subsequent to the firm s initial public offering generally vest as outlined in the applicable stock option agreement and first become exercisable on the third anniversary of the grant date. Year-end stock options for 2005 become exercisable in January 2009 and expire on November 27, 2015. Shares received on exercise prior to January 2010 will not be transferable until January

2010. All employee stock option agreements provide that vesting is accelerated in certain circumstances, such as upon retirement, death and extended absence. In general, all stock options expire on the tenth anniversary of the grant date, although they may be subject to earlier termination or cancellation in certain circumstances in accordance with the terms of the Amended SIP and the applicable stock option agreement. The dilutive effect of the firm s outstanding stock options is included in Average common shares outstanding Diluted on the condensed consolidated statements of earnings.

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The activity related to these stock options is set forth below:

	Options Outstanding	Weighted Average Exercise Price	Aggregate Intrinsic Value (in millions)	Weighted Average Remaining Life (in years)
Outstanding, November 2005 [1]	64,237,687	$ 83.24		
Granted				
Exercised	(8,136,558)	77.43		
Forfeited	(164,258)	95.95		
Outstanding, February 2006	55,936,871	$ 84.05	$ 3,362	5.6
Exercisable, February 2006	51,757,594	80.78	3,280	5.3

(1) Includes stock options granted to employees in the three month period ended February 2006 as part of compensation for fiscal 2005.

The total intrinsic value of options exercised during the three months ended February 2006 and February 2005 was $441 million and $256 million, respectively.

The following table sets forth share-based compensation and the related tax benefit:

	Three Months Ended February 2006	Three Months Ended February 2005
	(in millions)	
Noncash employee share-based compensation	$ 333	$ 219
Cash settled equity	13	
Total employee share-based compensation	346	219
Excess tax benefit related to options exercised	156	90
Excess tax benefit related to share-based compensation [1]	253	92

(1) Represents the tax benefit, recognized in additional paid-in capital, on stock options exercised and the delivery of shares underlying vested restricted stock units.

As of February 2006, there was $2.15 billion of total unrecognized compensation cost related to nonvested share-based compensation arrangements. This cost is expected to be recognized over a weighted average period of 2.26 years.

The firm s stock repurchase program is intended to maintain our total shareholders equity at appropriate levels and to substantially offset increases in share count over time resulting from employee share-based compensation. The repurchase program has been effected primarily through regular open-market purchases and is influenced by, among other factors, the level of our common shareholders equity, our overall capital position, share-based awards and exercises of employee stock options, the prevailing market price of our common stock and general market conditions.

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THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
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Note 13. Affiliated Funds

The firm has formed numerous nonconsolidated investment funds with third-party investors. The firm generally acts as the investment manager for these funds and, as such, is entitled to receive management fees and, in certain cases, advisory fees, incentive fees or overrides from these funds. These fees amounted to $1.22 billion and $506 million for the three months ended February 2006 and February 2005, respectively. As of February 2006 and November 2005, the fees receivable from these funds were $522 million and $388 million, respectively. Additionally, the firm may invest alongside the third-party investors in certain funds. The aggregate carrying value of the firm s interests in these funds was $2.65 billion and $2.17 billion as of February 2006 and November 2005, respectively. In addition, the firm had commitments to invest up to $4.38 billion and $3.54 billion in these funds as of February 2006 and November 2005, respectively. In the normal course of business, the firm may also engage in other activities with these funds, including among others, securities lending, trade execution, trading and custody.

Note 14. Regulation

The firm is regulated by the U.S. Securities and Exchange Commission (SEC) as a Consolidated Supervised Entity (CSE). As such, it is subject to group-wide supervision and examination by the SEC and to minimum capital requirements on a consolidated basis. As of February 2006 and November 2005, the firm was in compliance with the CSE capital requirements.

The firm s principal U.S. regulated subsidiaries include Goldman, Sachs & Co. (GS&Co.) and Goldman Sachs Execution & Clearing, L.P. (GSEC). GS&Co. and GSEC are registered U.S. broker-dealers and futures commission merchants subject to Rule 15c3-1 of the SEC and Rule 1.17 of the Commodity Futures Trading Commission, which specify uniform minimum net capital requirements, as defined, for their registrants. GS&Co. and GSEC have elected to compute their minimum capital requirements in accordance with the Alternative Net Capital Requirement as permitted by Rule 15c3-1. As of February 2006 and November 2005, GS&Co. and GSEC had net capital in excess of their minimum capital requirements. In addition to its alternative minimum net capital requirements, GS&Co. is also required to hold tentative net capital in excess of $1 billion and net capital in excess of $500 million in accordance with the market and credit risk standards of Appendix E of Rule 15c3-1. GS&Co. is also required to notify the SEC in the event that its tentative net capital is less than $5 billion. As of February 2006 and November 2005, GS&Co. had tentative net capital and net capital in excess of both the minimum and the notification requirements.

The firm s principal international regulated subsidiaries include Goldman Sachs International (GSI) and Goldman Sachs (Japan) Ltd. (GSJL). GSI, a regulated U.K. broker-dealer, is subject to the capital requirements of the U.K. s Financial Services Authority, and GSJL, a regulated broker-dealer based in Tokyo, is subject to the capital requirements of Japan s Financial Services Agency. As of February 2006 and November 2005, GSI and GSJL were in compliance with their local capital adequacy requirements.

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THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
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Certain other subsidiaries of the firm are also subject to capital adequacy requirements promulgated by authorities of the countries in which they operate. As of February 2006 and November 2005, these subsidiaries were in compliance with their local capital adequacy requirements.

Note 15. Business Segments

In reporting to management, the firm s operating results are categorized into the following three segments: Investment Banking, Trading and Principal Investments, and Asset Management and Securities Services.

Basis of Presentation

In reporting segments, certain of the firm s business lines have been aggregated where they have similar economic characteristics and are similar in each of the following areas: (i) the nature of the services they provide, (ii) their methods of distribution, (iii) the types of clients they serve and (iv) the regulatory environments in which they operate.

The cost drivers of the firm taken as a whole compensation, headcount and levels of business activity are broadly similar in each of the firm s business segments. Compensation expenses within the firm s segments reflect, among other factors, the overall performance of the firm as well as the performance of individual business units. Consequently, pre-tax margins in one segment of the firm s business may be significantly affected by the performance of the firm s other business segments. The timing and magnitude of changes in the firm s bonus accruals can have a significant effect on segment results in a given period.

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THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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Segment Operating Results

Management believes that the following information provides a reasonable representation of each segment s contribution to consolidated pre-tax earnings and total assets:

		As of or for the Three Months Ended February	
		2006	**2005**
		(in millions)	
Investment Banking	Net revenues	$ 1,471	$ 893
	Operating expenses	1,189	787
	Pre-tax earnings	$ 282	$ 106
	Segment assets	$ 4,717	$ 3,051
Trading and Principal Investments	Net revenues	$ 6,884	$ 4,383
	Operating expenses	4,329	2,729
	Pre-tax earnings	$ 2,555	$ 1,654
	Segment assets	$ 548,746	$ 413,570
Asset Management and Securities Services	Net revenues	$ 1,980	$ 1,129
	Operating expenses	1,099	713
	Pre-tax earnings	$ 881	$ 416
	Segment assets	$ 205,358	$ 179,276
Total	Net revenues (1)	$ 10,335	$ 6,405
	Operating expenses (2)	6,646	4,260
	Pre-tax earnings (3)	$ 3,689	$ 2,145
	Total assets	$ 758,821	$ 596,149 (4)

(1) Net revenues include net interest and cost of power generation as set forth in the table below:

Three Months Ended February

	2006	2005
	(in millions)	
Investment Banking	$ 1	$ 19
Trading and Principal Investments	197	243
Asset Management and Securities Services	426	355
Total net interest and cost of power generation	$ 624	$ 617

(2) Includes net provisions for a number of litigation and regulatory proceedings of $29 million and $31 million for the three months ended February 2006 and February 2005, respectively, that have not been allocated to the firm s segments.

(3) Pre-tax earnings include total depreciation and amortization as set forth in the table below:

	Three Months Ended February	
	2006	2005
	(in millions)	
Investment Banking	$ 31	$ 40
Trading and Principal Investments	149	124
Asset Management and Securities Services	39	34
Total depreciation and amortization	$ 219	$ 198

(4) Includes certain assets that management believes are not allocable to a particular segment.

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Report of Independent Registered Public Accounting Firm

To the Directors and Shareholders of
The Goldman Sachs Group, Inc.:

We have reviewed the accompanying condensed consolidated statement of financial condition of The Goldman Sachs Group, Inc. and its subsidiaries (the Company) as of February 24, 2006, the related condensed consolidated statements of earnings for the three months ended February 24, 2006 and February 25, 2005, the condensed consolidated statement of changes in shareholders equity for the three months ended February 24, 2006, the condensed consolidated statements of cash flows for the three months ended February 24, 2006 and February 25, 2005, and the condensed consolidated statements of comprehensive income for the three months ended February 24, 2006 and February 25, 2005. These condensed consolidated interim financial statements are the responsibility of the Company s management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statement of financial condition as of November 25, 2005 and the related consolidated statements of earnings, changes in shareholders equity, cash flows and comprehensive income for the year then ended, management s assessment of the effectiveness of the Company s internal control over financial reporting as of November 25, 2005 and the effectiveness of the Company s internal control over financial reporting as of November 25, 2005; and in our report dated February 3, 2006, we expressed unqualified opinions thereon. The consolidated financial statements and management s assessment of the effectiveness of internal control over financial reporting referred to above are not presented herein. In our opinion, the information set forth in the accompanying condensed consolidated statement of financial condition as of November 25, 2005, and the condensed consolidated statement of changes in shareholders equity for the year ended November 25, 2005, is fairly stated in all material respects in relation to the consolidated financial statements from which it has been derived.

/s/ PricewaterhouseCoopers LLP
New York, New York
March 30, 2006

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

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Introduction

Goldman Sachs is a leading global investment banking, securities and investment management firm that provides a wide range of services worldwide to a substantial and diversified client base that includes corporations, financial institutions, governments and high-net-worth individuals.

Our activities are divided into three segments:

Investment Banking. We provide a broad range of investment banking services to a diverse group of corporations, financial institutions, governments and individuals.

Trading and Principal Investments. We facilitate client transactions with a diverse group of corporations, financial institutions, governments and individuals and take proprietary positions through market making in, trading of and investing in fixed income and equity products, currencies, commodities and derivatives on such products. In addition, we engage in specialist and market-making activities on equities and options exchanges and we clear client transactions on major stock, options and futures exchanges worldwide. In connection with our merchant banking and other investing activities, we make principal investments directly and through funds that we raise and manage.

Asset Management and Securities Services. We provide investment advisory and financial planning services and offer investment products across all major asset classes to a diverse group of institutions and individuals worldwide, and provide prime brokerage services, financing services and securities lending services to mutual funds, pension funds, hedge funds, foundations and high-net-worth individuals worldwide.

This Management s Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended November 25, 2005. References herein to the Annual Report on Form 10-K are to our Annual Report on Form 10-K for the fiscal year ended November 25, 2005.

Unless specifically stated otherwise, all references to February 2006 and February 2005 refer to our fiscal periods ended, or the dates, as the context requires, February 24, 2006 and February 25, 2005, respectively. All references to November 2005, unless specifically stated otherwise, refer to our fiscal year ended, or the date, as the context requires, November 25, 2005. All references to 2006, unless specifically stated otherwise, refer to our fiscal year ending, or the date, as the context requires, November 24, 2006.

When we use the terms Goldman Sachs, we, us and our, we mean The Goldman Sachs Group, Inc. (Group Inc. Delaware corporation, and its consolidated subsidiaries.

Executive Overview

Our diluted earnings per common share were $5.08, annualized return on average tangible common shareholders equity[(1)] was 44.0% and annualized return on average common shareholders equity was 36.4% for the first quarter of 2006. Excluding incremental noncash expenses of $237 million related to the accounting for certain share-based awards under SFAS No. 123-R [(2)], diluted earnings per common share were $5.41 [(2)], annualized return on average tangible common shareholders equity[(1)] was 47.0% [(2)] and annualized return on average common shareholders equity was 38.8%[(2)] for the first quarter of 2006. Diluted earnings per common share for the first quarter of 2005 were $2.94.

Our results for the first quarter of 2006 reflected significantly higher net revenues in each of our three segments. The increase in Trading and Principal Investments reflected significantly higher net revenues in Fixed Income, Currency and Commodities (FICC), with particularly strong performances in credit products, commodities and currencies, as customer-driven activity was strong and market opportunities were favorable. In addition, net revenues in Equities increased significantly, as the business also operated in a favorable environment, characterized by generally higher equity prices, strong customer-driven activity and improved market opportunities. This increase was driven by strong results in both our customer franchise and principal strategies businesses. Net revenues in Principal Investments also increased significantly as the gain related to our investment in the convertible preferred stock of Sumitomo Mitsui Financial Group, Inc. (SMFG) and overrides and gains from real estate principal investments were higher than the same prior year period. The strong net revenue growth in our Asset Management and Securities Services businesses reflected incentive fees of $739 million (compared with $131 million for the same prior year period) and a 21% increase in management and other fees as well as significantly higher global customer balances in Securities Services. The increase in Investment Banking net revenues was broad based as net revenues were significantly higher in Financial Advisory, debt underwriting and equity underwriting, reflecting strong corporate activity levels. Our investment banking backlog declined during the quarter, but was significantly higher than at the end of the first quarter of 2005. [(3)]

Our operating results in the first quarter of 2006 reflected favorable market conditions and strong customer-driven activity levels. We continued to see favorable trading and investing opportunities for our clients and ourselves, and consequently, during the first quarter of 2006 we increased our market risk, particularly in equities, to capitalize on these opportunities. Net revenues in our FICC and Equities businesses surpassed previous peak levels. In our Asset Management business, continued strong growth in management and other fees was driven by record assets under management. Our Investment Banking net revenues reflected our best quarterly performance in nearly six years as corporate activity improved. We continued to focus on managing our capital base, with the goal of optimizing our returns while, at the same time, growing our businesses. During the first quarter of 2006, we repurchased 19.1 million shares of our stock at a cost of $2.58 billion. In addition, we increased our quarterly dividend to $0.35 per common share from $0.25 per common share. With respect to the regulatory environment, financial services firms continued to be under intense scrutiny, with the volume and amount of claims against financial institutions and other related costs remaining significant. Given the range of litigation and investigations presently under way, our litigation expenses can be expected to remain high.

Though our operating results were strong in the first quarter of 2006, our business, by its nature, does not produce predictable earnings. Our results in any given period can be materially affected by conditions in global financial markets and economic conditions generally. For a further discussion of these trends and other factors affecting our businesses, see Risk Factors in Part I, Item 1A of the Annual Report on Form 10-K.

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(1) Annualized return on average tangible common shareholders equity is computed by dividing annualized net earnings applicable to common shareholders by average monthly tangible common shareholders equity. See Results of Operations Financial Overview below for further information regarding our calculation of annualized return on average tangible common shareholders equity.

(2) Statement of Financial Accounting Standards (SFAS) No. 123-R, Share-Based Payment, focuses primarily on accounting for transactions in which an entity obtains employee services in exchange for share-based payments. Effective for the first quarter of 2006, we adopted SFAS No. 123-R, which requires that share-based awards granted to retirement-eligible employees, including those subject to non-compete agreements, be expensed in the year of grant. In addition to expensing current year awards, prior year awards must continue to be amortized over the relevant service period. Therefore, our compensation and benefits expenses in fiscal 2006 (and, to a lesser extent, in fiscal 2007 and fiscal 2008) will include both amortization of prior year awards and new awards granted to retirement-eligible employees for services rendered in fiscal 2006. We believe that presenting our results excluding the impact of the continued amortization of prior year share-based awards granted to retirement-eligible employees increases the comparability of period-to-period operating results and allows for a more meaningful representation of the relationship of current period compensation and benefits to net revenues.

The following tables set forth a reconciliation of diluted earnings per common share, common shareholders equity and net earnings applicable to common shareholders as reported, to these items excluding the impact of the continued amortization of prior year share-based awards granted to retirement-eligible employees:

		Three Months Ended February 2006
Diluted earnings per common share	$	5.08
Impact of the continued amortization of prior year share-based awards, net of tax		0.33
Diluted earnings per common share, excluding the impact of the continued amortization of prior year share-based awards	$	5.41

		Average for the Three Months Ended February 2006
		(in millions)
Total shareholders equity	$	28,724
Preferred stock		(1,750)
Common shareholders equity		26,974

Impact of the continued amortization of prior year share-based awards, net of tax		(48)
Common shareholders equity, excluding the impact of the continued amortization of prior year share-based awards		26,926
Goodwill and certain identifiable intangible assets		(4,687)
Tangible common shareholders equity (see footnote 1 above), excluding the impact of the continued amortization of prior year share-based awards	$	22,239

	Three Months Ended February 2006	
	(in millions)	
Net earnings applicable to common shareholders	$	2,453
Impact of the continued amortization of prior year share-based awards, net of tax		159
Net earnings applicable to common shareholders, excluding the impact of the continued amortization of prior year share-based awards	$	2,612

(3) Our investment banking backlog represents an estimate of our future net revenues from investment banking transactions where we believe that future revenue realization is more likely than not.

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Business Environment

Global economic conditions remained strong throughout our first fiscal quarter of 2006, as real gross domestic product appeared to grow at a strong pace, business confidence remained high and inflationary pressures were broadly contained. Despite tightening by both the U.S. Federal Reserve and the European Central Bank, global financial conditions remained supportive of economic activity throughout the quarter. These conditions were reflected in the performance of the major global equity markets, which ended the quarter higher. In the fixed income markets, yield curves continued to flatten, as the 10-year U.S. Treasury note yield ended the quarter 15 basis points below the 2-year yield, and corporate credit spreads remained narrow. In Investment Banking, corporate activity levels in mergers and acquisitions and underwriting were strong.

In the United States, the pace of economic growth appeared to increase during our fiscal quarter as consumer spending continued to rise and core inflation remained broadly contained. In addition, business and consumer confidence remained high, as unemployment reached its lowest levels in more than four years. The U.S. Federal Reserve raised its federal funds rate target during the quarter by 50 basis points to 4.50% and has now increased the rate in each of its last 14 meetings. Long-term bond yields rose, with the 10-year U.S. Treasury note yield ending the quarter up 14 basis points at 4.57%. In the equity markets, the S&P 500 Index, the NASDAQ Composite Index and the Dow Jones Industrial Average each ended the quarter slightly higher.

In Europe, economic growth continued to improve, reflecting higher exports and a moderate strengthening of business investment. In addition, inflation remained relatively contained and business confidence improved towards the end of the quarter. The European Central Bank raised its main refinancing operations rate for the first time in over two years, increasing the rate by 25 basis points during the quarter to 2.25%. The U.K. economy showed continued modest growth and accordingly, the Bank of England left rates unchanged. Equity markets in Europe ended the quarter higher. Long-term yields in the U.K. ended the quarter slightly lower, while long-term yields in continental Europe increased slightly.

In Japan, real gross domestic product growth remained solid during the quarter, reflecting continued growth in domestic demand as well as a continued increase in exports. In addition, deflationary pressures receded further as the consumer price index rose toward the end of the quarter. These favorable conditions were reflected in a 9% increase in the Nikkei 225 Index during the quarter. In China, the pace of economic growth appeared to accelerate, reflecting growth in both exports and domestic demand. Elsewhere in Asia, growth in exports and domestic demand remained steady. Regional equity markets, including Hong Kong, South Korea and Taiwan, ended the quarter higher.

Critical Accounting Policies

Fair Value

The use of fair value to measure our financial instruments, with related unrealized gains and losses generally recognized immediately in our results of operations, is fundamental to our financial statements and is our most critical accounting policy. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

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In determining fair value, we separate our financial instruments into three categories cash (i.e., nonderivative) trading instruments, derivative contracts and principal investments, as set forth in the following table:

Financial Instruments by Category
(in millions)

	As of February 2006		As of November 2005	
	Financial Instruments Owned, At Fair Value	Financial Instruments Sold, But Not Yet Purchased, At Fair Value	Financial Instruments Owned, At Fair Value	Financial Instruments Sold, But Not Yet Purchased, At Fair Value
Cash trading instruments	$ 225,537 (1)	$ 96,926	$ 210,042	$ 89,735
Derivative contracts	56,907	55,259	58,532	57,829
Principal investments	7,739 (2)	1,702 (3)	6,526 (2)	1,507 (3)
Total	$ 290,183	$ 153,887	$ 275,100	$ 149,071

(1) Includes approximately $1.40 billion of U.S. government, federal agency and other debt instruments, which are held by our insurance subsidiaries and accounted for as available-for-sale securities under SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities.

(2) Excludes assets for which Goldman Sachs is not at risk (e.g., assets related to consolidated employee-owned merchant banking funds) of $2.09 billion and $1.93 billion as of February 2006 and November 2005, respectively.

(3) Represents an economic hedge on the unrestricted shares of common stock underlying our investment in the convertible preferred stock of SMFG. For a further discussion of our investment in SMFG, see Principal Investments below.

Cash Trading Instruments. The following table sets forth the valuation of our cash trading instruments by level of price transparency:

Cash Trading Instruments by Price Transparency
(in millions)

As of February 2006		As of November 2005	
Financial Instruments	Financial Instruments Sold, But Not Yet	Financial Instruments	Financial Instruments Sold, But Not Yet

	Owned, At Fair Value	Purchased, At Fair Value	Owned, At Fair Value	Purchased, At Fair Value
Quoted prices or alternative pricing sources with reasonable price transparency	$ 211,273	$ 96,771	$ 198,233	$ 89,565
Little or no price transparency	14,264	155	11,809	170
Total	$ 225,537	$ 96,926	$ 210,042	$ 89,735

Fair values of our cash trading instruments are generally obtained from quoted market prices in active markets, broker or dealer price quotations, or alternative pricing sources with reasonable levels of price transparency. The types of instruments valued in this manner include U.S. government and agency securities, other sovereign government obligations, liquid mortgage products, investment-grade and high-yield corporate bonds, listed equities, money market securities, state, municipal and provincial obligations, and physical commodities.

Certain cash trading instruments trade infrequently and have little or no price transparency. Such instruments may include certain corporate bank loans, mortgage whole loans and distressed debt. We value these instruments initially at cost and generally do not adjust valuations unless there is substantive evidence supporting a change in the value of the underlying instrument or valuation assumptions (such as similar market transactions, changes in financial ratios or changes in the credit ratings of the underlying companies). Where there is evidence supporting a change in the value, we use valuation methodologies such as the present value of known or estimated cash flows.

Cash trading instruments we own (long positions) are marked to bid prices and instruments we have sold but not yet purchased (short positions) are marked to offer prices. If liquidating a position is expected to affect its prevailing market price, our valuation is adjusted generally based on market evidence or predetermined policies. In certain circumstances, such as for highly illiquid positions, management s estimates are used to determine this adjustment.

Derivative Contracts. Derivative contracts consist of exchange-traded and over-the-counter (OTC) derivatives. The following table sets forth the fair value of our exchange-traded and OTC derivative assets and liabilities:

Derivative Assets and Liabilities
(in millions)

	As of February 2006		As of November 2005	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Exchange-traded derivatives	$ 11,758	$ 10,226	$ 10,869	$ 9,083
OTC derivatives	45,149	45,033	47,663	48,746
Total	$ 56,907 (1)	$ 55,259 (2)	$ 58,532 (1)	$ 57,829 (2)

(1) Net of cash received pursuant to credit support agreements of $23.69 billion and $22.61 billion as of February 2006 and November 2005, respectively.

(2) Net of cash paid pursuant to credit support agreements of $17.86 billion and $16.10 billion as of February 2006 and November 2005, respectively.

Fair values of our exchange-traded derivatives are generally determined from quoted market prices. OTC derivatives are valued using valuation models. We use a variety of valuation models including the present value of known or estimated cash flows and option-pricing models. The valuation models that we use to derive the fair values of our OTC derivatives require inputs including contractual terms, market prices, yield curves, credit curves, measures of volatility, prepayment rates and correlations of such inputs. The selection of a model to value an OTC derivative depends upon the contractual terms of, and specific risks inherent in, the instrument as well as the availability of pricing information in the market. We generally use similar models to value similar instruments. Where possible, we verify the values produced by our pricing models to market transactions. For OTC derivatives that trade in liquid markets, such as generic forwards, swaps and options, model selection does not involve significant judgment because market prices are readily available. For OTC derivatives that trade in less liquid markets, model selection requires more judgment because such instruments tend to be more complex and pricing information is less available in these markets. Price transparency is inherently more limited for more complex structures because they often combine one or more product types, requiring additional inputs such as correlations and volatilities. As markets continue to develop and more pricing information becomes available, we continue to review and refine the models that we use.

At the inception of an OTC derivative contract (day one), we value the contract at the model value if we can verify all of the significant model inputs to observable market data and verify the model to market transactions. When appropriate, valuations are adjusted to reflect various factors such as liquidity, bid/offer spreads and credit considerations. These adjustments are generally based on market evidence or predetermined policies. In certain circumstances, such as for highly illiquid positions, management s estimates are used to determine these adjustments.

Where we cannot verify all of the significant model inputs to observable market data and verify the model to market transactions, we value the contract at the transaction price at inception and, consequently, record no day one gain or loss in accordance with Emerging Issues Task Force (EITF) Issue No. 02-3, Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities. Following day one, we adjust the inputs to our valuation models only to the extent that changes in these inputs can be verified by similar market transactions, third-party pricing services and/or broker quotes, or can be derived from other substantive evidence such as empirical market data. In circumstances where we cannot verify the model to market transactions, it is possible that a different valuation model could produce a materially different estimate of fair value.

The following tables set forth the fair values of our OTC derivative assets and liabilities by product and by remaining contractual maturity:

OTC Derivatives
(in millions)

Assets			**As of February 2006**			
Contract Type	**0 - 6 Months**	**6 - 12 Months**	**1 - 5 Years**	**5 - 10 Years**	**10 Years or Greater**	**Total**
Interest rates	$ 966	$ 533	$ 4,955	$ 4,581	$ 5,762	$ 16,797
Currencies	3,265	601	2,160	1,008	1,086	8,120
Commodities	2,629	3,369	7,459	1,205	171	14,833
Equities	1,262	783	1,090	2,009	255	5,399
Total	$ 8,122	$ 5,286	$ 15,664	$ 8,803	$ 7,274	$ 45,149

Liabilities						
Contract Type	**0 - 6 Months**	**6 - 12 Months**	**1 - 5 Years**	**5 - 10 Years**	**10 Years or Greater**	**Total**
Interest rates	$ 1,355	$ 818	$ 4,770	$ 3,050	$ 4,988	$ 14,981
Currencies	3,493	769	2,745	459	720	8,186
Commodities	2,442	3,260	5,985	1,656	139	13,482
Equities	1,630	1,337	1,932	3,201	284	8,384
Total	$ 8,920	$ 6,184	$ 15,432	$ 8,366	$ 6,131	$ 45,033

Assets			**As of November 2005**			
Contract Type	**0 - 6 Months**	**6 - 12 Months**	**1 - 5 Years**	**5 - 10 Years**	**10 Years or Greater**	**Total**
Interest rates	$ 1,898	$ 467	$ 4,634	$ 5,310	$ 5,221	$ 17,530
Currencies	5,825	1,031	1,843	919	1,046	10,664
Commodities	3,772	1,369	8,130	1,374	120	14,765
Equities	1,168	1,171	832	1,403	130	4,704

Total	$ 12,663	$ 4,038	$ 15,439	$ 9,006	$ 6,517	$ 47,663

Liabilities

Contract Type	0 - 6 Months	6 - 12 Months	1 - 5 Years	5 - 10 Years	10 Years or Greater	Total
Interest rates	$ 1,956	$ 590	$ 5,327	$ 3,142	$ 4,970	$ 15,985
Currencies	6,295	575	3,978	436	924	12,208
Commodities	3,852	2,080	5,904	1,865	162	13,863
Equities	1,308	1,068	2,079	1,993	242	6,690
Total	$ 13,411	$ 4,313	$ 17,288	$ 7,436	$ 6,298	$ 48,746

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We enter into certain OTC option transactions that provide us or our counterparties with the right to extend the maturity of the underlying contract. The fair value of these option contracts is not material to the aggregate fair value of our OTC derivative portfolio. In the tables above, for option contracts that require settlement by delivery of an underlying derivative instrument, the remaining contractual maturity is generally classified based upon the maturity date of the underlying derivative instrument. In those instances where the underlying instrument does not have a maturity date or either counterparty has the right to settle in cash, the remaining contractual maturity is generally based upon the option expiration date.

Principal Investments. In valuing our corporate and real estate principal investments, we separate our portfolio into investments in private companies, investments in public companies (excluding our investment in the convertible preferred stock of SMFG) and our investment in SMFG.

The following table sets forth the carrying value of our principal investments portfolio:

Principal Investments
(in millions)

	As of February 2006			As of November 2005		
	Corporate	Real Estate	Total	Corporate	Real Estate	Total
Private	$ 1,933	$ 678	$ 2,611	$ 1,538	$ 716	$ 2,254
Public	386	8	394	185	29	214
Subtotal (1)	2,319	686	3,005	1,723	745	2,468
SMFG convertible preferred stock (2) (3)	4,734		4,734	4,058		4,058
Total	$ 7,053	$ 686	$ 7,739	$ 5,781	$ 745	$ 6,526

(1) Excludes assets for which Goldman Sachs is not at risk (e.g., assets related to consolidated employee-owned merchant banking funds) of $2.09 billion and $1.93 billion as of February 2006 and November 2005, respectively.

(2) The fair value of our Japanese yen-denominated investment in the convertible preferred stock of SMFG includes the effect of foreign exchange revaluation. We hedge our economic exposure to exchange rate movements on our investment in SMFG by borrowing Japanese yen. Foreign exchange revaluation on the investment and the related borrowing are generally equal and offsetting. For example, if the Japanese yen appreciates against the U.S. dollar, the U.S. dollar carrying value of our SMFG investment will increase and the U.S. dollar carrying value of the related borrowing will also increase by an amount that is generally equal and offsetting.

(3) Excludes an economic hedge on the unrestricted shares of common stock underlying our investment in the convertible preferred stock of SMFG. The fair value of this hedge was $1.70 billion and $1.51 billion as of February 2006 and November 2005, respectively, and is reflected in Financial instruments sold, but not yet purchased, at fair value in the condensed consolidated statements of financial condition. For a further discussion of the restrictions on our ability to hedge or sell the common stock underlying our investment in SMFG, see below.

Our private principal investments, by their nature, have little or no price transparency. Such investments are initially carried at cost as an approximation of fair value. Adjustments to carrying value are made if there are third-party transactions evidencing a change in value. Downward adjustments are also made, in the absence of third-party transactions, if we determine that the expected realizable value of the investment is less than the carrying value. In reaching that determination, we consider many factors including, but not limited to, the operating cash flows and financial performance of the companies or properties relative to budgets or projections, trends within sectors and/or regions, underlying business models, expected exit timing and strategy, and any specific rights or terms associated with the investment, such as conversion features and liquidation preferences.

Our public principal investments, which tend to be large, concentrated holdings that result from initial public offerings or other corporate transactions, are valued using quoted market prices discounted based on predetermined written policies for nontransferability and illiquidity.

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Our investment in the convertible preferred stock of SMFG is carried at fair value, which is derived from a model that incorporates SMFG s common stock price and credit spreads, the impact of nontransferability and illiquidity, and the downside protection on the conversion strike price. The fair value of our investment is particularly sensitive to movements in the SMFG common stock price. As a result of transfer restrictions and the downside protection on the conversion strike price, the relationship between changes in the fair value of our investment and changes in SMFG s common stock price is nonlinear. During the first quarter, the fair value of our investment (excluding the economic hedge on the unrestricted shares of common stock underlying one-third of our investment) increased 14% (expressed in Japanese yen), primarily due to an increase in the SMFG common stock price and, to a lesser extent, the impact of passage of time in respect of the transfer restrictions on the underlying common stock.

Our investment in the convertible preferred stock of SMFG is generally nontransferable, but is freely convertible into SMFG common stock. Restrictions on our ability to hedge or sell two-thirds of the common stock underlying our investment in SMFG lapsed in equal installments on February 7, 2005 and March 9, 2006. As of the date of this filing, we were fully hedged with respect to the first one-third installment of the unrestricted shares and partially hedged with respect to the second one-third installment of the unrestricted shares. Restrictions on our ability to hedge or sell the remaining one-third installment lapse on February 7, 2007. Effective March 1, 2006, the conversion price of our SMFG preferred stock into shares of SMFG common stock is ¥320,700. This price is subject to downward adjustment if the price of SMFG common stock at the time of conversion is less than the conversion price (subject to a floor of ¥105,700).

Controls Over Valuation of Financial Instruments. A control infrastructure, independent of the trading and investing functions, is fundamental to ensuring that our financial instruments are appropriately valued and that fair value measurements are reliable. This is particularly important in valuing instruments with lower levels of price transparency.

We employ an oversight structure that includes appropriate segregation of duties. Senior management, independent of the trading functions, is responsible for the oversight of control and valuation policies and for reporting the results of these policies to our Audit Committee. We seek to maintain the necessary resources to ensure that control functions are performed to the highest standards. We employ procedures for the approval of new transaction types and markets, price verification, review of daily profit and loss, and review of valuation models by personnel with appropriate technical knowledge of relevant products and markets. These procedures are performed by personnel independent of the revenue-producing units. For trading and principal investments with little or no price transparency, we employ, where possible, procedures that include comparisons with similar observable positions, analysis of actual to projected cash flows, comparisons with subsequent sales and discussions with senior business leaders. See Management s Discussion and Analysis of Financial Condition and Results of Operations Risk Management in Part II, Item 7 of the Annual Report on Form 10-K for a further discussion on how we manage the risks inherent in our trading and principal investing businesses.

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Goodwill and Identifiable Intangible Assets

As a result of our acquisitions, principally SLK LLC (SLK) in fiscal 2000, The Ayco Company, L.P. (Ayco) in fiscal 2003, Cogentrix Energy, Inc. (Cogentrix) in fiscal 2004, National Energy & Gas Transmission, Inc. (NEGT) in fiscal 2005 and the acquisition of the variable annuity and variable life insurance business of The Hanover Insurance Group, Inc. (formerly Allmerica Financial Corporation) in fiscal 2006, we have acquired goodwill and identifiable intangible assets. Goodwill is the cost of acquired companies in excess of the fair value of net assets, including identifiable intangible assets, at the acquisition date.

Goodwill. We test the goodwill in each of our operating segments for impairment at least annually in accordance with Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets, by comparing the estimated fair value of each operating segment with its estimated net book value. We derive the fair value of each of our operating segments primarily based on price-earnings multiples. We derive the net book value of our operating segments by estimating the amount of shareholders equity required to support the assets of each operating segment. Our last annual impairment test was performed during our fiscal 2005 fourth quarter and no impairment was identified.

The following table sets forth the carrying value of our goodwill by operating segment:

Goodwill by Operating Segment
(in millions)

	As of	
	February 2006	**November 2005**
Investment Banking		
Financial Advisory	$	$
Underwriting	125	125
Trading and Principal Investments		
FICC	67	91
Equities [(1)]	2,388	2,390
Principal Investments	3	1
Asset Management and Securities Services		
Asset Management [(2)]	424	424
Securities Services	117	117
Total	$ 3,124	$ 3,148

(1) Primarily related to SLK.
(2) Primarily related to Ayco.

Identifiable Intangible Assets. We amortize our identifiable intangible assets over their estimated useful lives in accordance with SFAS No. 142, and test for potential impairment whenever events or changes in circumstances suggest that an asset s or asset group s carrying value may not be fully recoverable in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. An impairment loss, calculated as the difference between the estimated fair value and the carrying value of an asset or asset group, is recognized if the sum of the estimated undiscounted cash flows relating to the asset or asset group is less than the corresponding carrying value.

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The following table sets forth the carrying value and range of remaining useful lives of our identifiable intangible assets by major asset class:

Identifiable Intangible Assets by Asset Class
($ in millions)

	As of February 2006		As of November 2005
	Carrying Value	Range of Remaining Useful Lives (in years)	Carrying Value
Customer lists [1]	$ 764	6 19	$ 777
Power contracts [2]	719	2 22	481
New York Stock Exchange (NYSE) specialist rights	572	16 [5]	580
Value of business acquired (VOBA) [3]	279	7	
Exchange-traded fund (ETF) specialist rights	109	22	111
Other [4]	100	2 9	106
Total	$ 2,543		$ 2,055

(1) Primarily includes our clearance and execution and NASDAQ customer lists related to SLK and financial counseling customer lists related to Ayco.

(2) Primarily relates to above-market power contracts of consolidated power generation facilities related to Cogentrix and NEGT. Substantially all of these power contracts have been pledged as collateral to counterparties in connection with certain of our secured short-term and long-term borrowings.

(3) Represents the present value of estimated future gross profits of the variable annuity and variable life insurance business acquired in fiscal 2006. VOBA is amortized over the estimated life of the underlying contracts based on estimated gross profits, and amortization is adjusted based on actual experience. The seven year useful life represents the weighted average remaining amortization period of the underlying contracts (certain of which extend approximately 30 years).

(4) Primarily includes technology-related and other assets related to SLK.

(5) During the first quarter of 2006, we reduced the estimated useful lives of our NYSE specialist rights from 22 - 24 years to 16 years. This change was due to higher than expected attrition in acquired NYSE specialist rights, primarily from mergers and delistings.

A prolonged period of weakness in global equity markets and the trading of securities in multiple markets and on multiple exchanges could adversely impact our businesses and impair the value of our goodwill and/or identifiable intangible assets. In addition, certain events could indicate a potential impairment of our identifiable intangible assets, including (i) changes in market structure that could adversely affect our specialist businesses, (ii) an adverse action or assessment by a regulator, (iii) a default event under a power contract or physical damage or other adverse events impacting the underlying power generation facilities, or (iv) adverse actual experience on the contracts in our variable annuity and variable life insurance business.

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Use of Estimates

The use of generally accepted accounting principles requires management to make certain estimates. In addition to the estimates we make in connection with fair value measurements and the accounting for goodwill and identifiable intangible assets, the use of estimates is also important in determining compensation and benefits expenses for interim periods and in determining provisions for potential losses that may arise from litigation and regulatory proceedings and tax audits.

A substantial portion of our compensation and benefits represents discretionary bonuses, which are determined at year end. We believe the most appropriate way to allocate estimated annual discretionary bonuses among interim periods is in proportion to the net revenues earned in such periods. In addition to the level of net revenues, our overall compensation expense in any given year is also influenced by, among other factors, prevailing labor markets, business mix and the structure of our share-based compensation programs. We generally target compensation and benefits at 50% (plus or minus a few percentage points) of consolidated net revenues. During the first quarter of 2006, our ratio of compensation and benefits to net revenues was 51.3%. Excluding the $237 million impact of the continued amortization of prior year share-based awards under SFAS No. 123-R, our ratio of compensation and benefits to net revenues was 49.0%. [1]

We estimate and provide for potential losses that may arise out of litigation and regulatory proceedings and tax audits to the extent that such losses are probable and can be estimated, in accordance with SFAS No. 5, Accounting for Contingencies. Significant judgment is required in making these estimates and our final liabilities may ultimately be materially different. Our total liability in respect of litigation and regulatory proceedings is determined on a case-by-case basis and represents an estimate of probable losses after considering, among other factors, the progress of each case or proceeding, our experience and the experience of others in similar cases or proceedings, and the opinions and views of legal counsel. Given the inherent difficulty of predicting the outcome of our litigation and regulatory matters, particularly in cases or proceedings in which substantial or indeterminate damages or fines are sought, we cannot estimate losses or ranges of losses for cases or proceedings where there is only a reasonable possibility that a loss may be incurred. See Legal Proceedings in Part I, Item 3 of the Annual Report on Form 10-K, and in Part II, Item 1 of this Quarterly Report on Form 10-Q for information on our judicial, regulatory and arbitration proceedings.

(1) Our ratio of compensation and benefits to net revenues, excluding the impact of the continued amortization of prior year share-based awards, is computed by dividing compensation and benefits, excluding the impact of the continued amortization of prior year share-based awards, by net revenues. We believe that presenting the ratio of compensation and benefits to net revenues excluding the impact of the continued amortization of prior year share-based awards granted to retirement-eligible employees increases the comparability of period-to-period operating results and allows for a more meaningful representation of the relationship of current period compensation and benefits to net revenues. The following table sets forth the reconciliation of the ratio of compensation and benefits to net revenues as reported, to the ratio of compensation and benefits to net revenues excluding the impact of the continued amortization of prior year share-based awards:

	Three Months Ended February 2006
	($ in millions)
Compensation and benefits	$ 5,301

Impact of the continued amortization of prior year share-based awards		(237)
Compensation and benefits, excluding the impact of the continued amortization of prior year share-based awards	$	5,064
Net revenues	$	10,335
Ratio of compensation and benefits to net revenues, excluding the impact of the continued amortization of prior year share-based awards		49.0%

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Results of Operations

The composition of our net revenues has varied over time as financial markets and the scope of our operations have changed. The composition of net revenues can also vary over the shorter term due to fluctuations in U.S. and global economic and market conditions. For a further discussion of the impact of economic and market conditions on our results of operations, see Risk Factors in Part I, Item 1A of the Annual Report on Form 10-K.

Financial Overview

The following table sets forth an overview of our financial results:

Financial Overview
($ in millions, except per share amounts)

	Three Months Ended February	
	2006	**2005**
Net revenues	$ 10,335	$ 6,405
Pre-tax earnings	3,689	2,145
Net earnings	2,479	1,512
Net earnings applicable to common shareholders	2,453	1,512
Diluted earnings per common share	5.08	2.94
Annualized return on average common shareholders equity [1]	36.4%	23.5%
Annualized return on average tangible common shareholders equity [2]	44.0%	28.9%

(1) Annualized return on average common shareholders equity is computed by dividing annualized net earnings applicable to common shareholders by average monthly common shareholders equity.

(2) Tangible common shareholders equity equals total shareholders equity less preferred stock, goodwill and certain identifiable intangible assets (primarily customer lists and specialist rights). In the first quarter of 2006, we amended our calculation of tangible common shareholders equity to deduct only certain identifiable intangible assets from total shareholders equity. We no longer deduct identifiable intangible assets associated with power contracts and we do not deduct VOBA, which is related to our insurance business acquired in the first quarter of 2006. Prior periods have been restated to conform to the current period presentation.

We believe that annualized return on average tangible common shareholders equity is a meaningful measure of performance because it excludes the portion of our common shareholders equity attributable to goodwill and certain identifiable intangible assets. As a result, this calculation measures corporate performance in a manner that treats underlying businesses consistently, whether they were acquired or developed internally. Annualized return on average tangible common shareholders equity is computed by dividing annualized net earnings applicable to common shareholders by average monthly tangible common shareholders equity. The following table sets forth a reconciliation of average total shareholders equity to average tangible common shareholders equity:

	Average for the Three Months Ended February	
	2006	**2005**

	(in millions)	
Total shareholders equity	$ 28,724	$ 25,735
Preferred stock	(1,750)	
Common shareholders equity	26,974	25,735
Goodwill and certain identifiable intangible assets	(4,687)	(4,799)
Tangible common shareholders equity	$ 22,287	$ 20,936

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Net Revenues

Three Months Ended February 2006 versus February 2005. Our net revenues were $10.34 billion for the first quarter of 2006, an increase of 61% compared with the first quarter of 2005, reflecting significantly higher net revenues in each of our three segments. The increase in Trading and Principal Investments reflected significantly higher net revenues in FICC, with particularly strong performances in credit products, commodities and currencies, as customer-driven activity was strong and market opportunities were favorable. In addition, net revenues in Equities increased significantly, as the business also operated in a favorable environment, characterized by generally higher equity prices, strong customer-driven activity and improved market opportunities. This increase was driven by strong results in both our customer franchise and principal strategies businesses. Net revenues in Principal Investments also increased significantly as the gain related to our investment in the convertible preferred stock of SMFG and overrides and gains from real estate principal investments were higher than the same prior year period. The strong net revenue growth in our Asset Management and Securities Services businesses reflected incentive fees of $739 million (compared with $131 million for the same prior year period) and a 21% increase in management and other fees as well as significantly higher global customer balances in Securities Services. The increase in Investment Banking net revenues was broad based as net revenues were significantly higher in Financial Advisory, debt underwriting and equity underwriting, reflecting strong corporate activity levels.

Operating Expenses

Our operating expenses are primarily influenced by compensation, headcount and levels of business activity. A substantial portion of our compensation expense represents discretionary bonuses, with our overall compensation and benefits expenses generally targeted at 50% (plus or minus a few percentage points) of consolidated net revenues. In addition to the level of net revenues, our compensation expense in any given year is influenced by, among other factors, prevailing labor markets, business mix and the structure of our share-based compensation programs. During the first quarter of 2006, our ratio of compensation and benefits to net revenues was 51.3%. Excluding the $237 million impact of the continued amortization of prior year share-based awards under SFAS No. 123-R, our ratio of compensation and benefits to net revenues was 49.0%. See Use of Estimates above for more information on our ratio of compensation and benefits to net revenues.

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The following table sets forth our operating expenses and number of employees:

Operating Expenses and Employees
($ in millions)

	Three Months Ended February	
	2006	**2005**
Compensation and benefits [1]	$ 5,301	$ 3,203
Brokerage, clearing and exchange fees	351	252
Market development	100	82
Communications and technology	124	118
Depreciation and amortization	125	118
Amortization of identifiable intangible assets	34	31
Occupancy	193	148
Professional fees	109	96
Other expenses	309	212
Total non-compensation expenses	1,345	1,057
Total operating expenses	$ 6,646	$ 4,260
Employees at period end [1] [2]	23,641	21,606

(1) Excludes 8,171 and 536 employees as of February 2006 and February 2005, respectively, of consolidated entities held for investment purposes. Compensation and benefits includes $51 million and $5 million for the three months ended February 2006 and February 2005, respectively, attributable to these consolidated entities. Consolidated entities held for investment purposes includes entities that are held strictly for capital appreciation, have a defined exit strategy and are engaged in activities that are not closely related to our principal businesses.

(2) Beginning with the first quarter of 2006, includes 1,168 employees of Goldman Sachs consolidated property management and loan servicing subsidiaries. The prior year period has been restated to conform to the current presentation and includes 928 such employees.

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The following table sets forth non-compensation expenses of consolidated entities held for investment purposes and our remaining non-compensation expenses by line item:

Non-Compensation Expenses
(in millions)

	Three Months Ended February	
	2006	**2005**
Non-compensation expenses of consolidated investments [(1)]	$ 99	$ 15
Non-compensation expenses excluding consolidated investments		
Brokerage, clearing and exchange fees	351	252
Market development	92	82
Communications and technology	123	118
Depreciation and amortization	112	116
Amortization of identifiable intangible assets	34	31
Occupancy	169	148
Professional fees	105	96
Other expenses	260	199
Subtotal	1,246	1,042
Total non-compensation expenses, as reported	$ 1,345	$ 1,057

(1) Consolidated entities held for investment purposes includes entities that are held strictly for capital appreciation, have a defined exit strategy and are engaged in activities that are not closely related to our principal businesses. For example, these investments include consolidated entities that hold real estate assets such as golf courses and hotels in Asia, but exclude investments in entities that primarily hold financial assets. We believe that it is meaningful to review non-compensation expenses excluding expenses related to these consolidated entities in order to evaluate trends in non-compensation expenses related to our principal business activities. Revenues related to such entities are included in Trading and principal investments in the condensed consolidated statements of earnings.

Three Months Ended February 2006 versus February 2005. Operating expenses of $6.65 billion increased 56% compared with the first quarter of 2005. Compensation and benefits expenses of $5.30 billion increased 66% compared with the first quarter of 2005, primarily due to higher net revenues. The ratio of compensation and benefits to net revenues for the quarter was 51.3% compared with 50.0% for the first quarter of 2005. Excluding the $237 million impact of the continued amortization of prior year share-based awards under SFAS No. 123-R, the ratio of compensation and benefits to net revenues was 49.0% for the quarter compared with 50.0% for the first quarter of 2005. Employment levels were essentially unchanged during the quarter. See Use of Estimates above for more information on our ratio of compensation and benefits to net revenues.

Effective for the first quarter of 2006, we adopted SFAS No. 123-R, which requires that share-based awards granted to retirement-eligible employees, including those subject to non-compete agreements, be expensed in the year of grant. In addition to expensing current year awards, prior year awards must continue to be amortized over the relevant service period. Therefore, our compensation and benefits expenses in fiscal 2006 (and, to a lesser extent, in fiscal 2007 and fiscal 2008) will include both amortization of prior year awards and new awards granted to retirement-eligible employees for services rendered in fiscal 2006. The majority of the expense related to the continued amortization of prior year awards will be recognized in fiscal 2006. The estimated annual expense for fiscal 2006 is approximately $650 million of which $237 million was recognized in the first quarter of 2006.

Non-compensation expenses were $1.35 billion, 27% higher than the first quarter of 2005. Excluding non-compensation expenses related to consolidated entities held for investment purposes, non-compensation expenses were 20% higher than the first quarter of 2005. Approximately one-half of this increase was attributable to higher brokerage, clearing and exchange fees in both Equities

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and FICC. Other expenses were higher primarily due to costs related to our recently acquired insurance business and increased charitable contributions. Other expenses included net provisions for litigation and regulatory proceedings of $29 million for the first quarter of 2006 compared with $31 million for the same prior year period. Occupancy expenses increased primarily reflecting higher operating expenses and increased rent.

Provision for Taxes

The provision for taxes for the quarter ended February 2006 was $1.21 billion. The effective income tax rate for the first quarter of 2006 was 32.8%, up from 32.0% for fiscal year 2005, primarily due to a net benefit from various audit settlements recognized during the first quarter of 2005.

Segment Operating Results

The following table sets forth the net revenues, operating expenses and pre-tax earnings of our segments:

Segment Operating Results
(in millions)

		Three Months Ended February	
		2006	**2005**
Investment Banking	Net revenues	$ 1,471	$ 893
	Operating expenses	1,189	787
	Pre-tax earnings	$ 282	$ 106
Trading and Principal Investments	Net revenues	$ 6,884	$ 4,383
	Operating expenses	4,329	2,729
	Pre-tax earnings	$ 2,555	$ 1,654
Asset Management and Securities Services	Net revenues	$ 1,980	$ 1,129
	Operating expenses	1,099	713
	Pre-tax earnings	$ 881	$ 416
Total	Net revenues	$ 10,335	$ 6,405
	Operating expenses [(1)]	6,646	4,260
	Pre-tax earnings	$ 3,689	$ 2,145

[(1)] Includes net provisions for a number of litigation and regulatory proceedings of $29 million and $31 million for the three months ended February 2006 and February 2005, respectively, that have not been allocated to our segments.

Net revenues in our segments include allocations of interest income and interest expense to specific securities, commodities and other positions in relation to the cash generated by, or funding requirements of, such underlying positions.

The cost drivers of Goldman Sachs taken as a whole compensation, headcount and levels of business activity are broadly similar in each of our business segments. Compensation expenses within our segments reflect, among other factors, the overall performance of Goldman Sachs as well as the performance of individual business units. Consequently, pre-tax margins in one segment of our business may be significantly affected by the performance of our other business segments. The timing and magnitude of changes in our bonus accruals can have a significant effect on segment results in a given period. A discussion of segment operating results follows.

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Investment Banking

Our Investment Banking segment is divided into two components:

Financial Advisory. Financial Advisory includes advisory assignments with respect to mergers and acquisitions, divestitures, corporate defense activities, restructurings and spin-offs.

Underwriting. Underwriting includes public offerings and private placements of equity, equity-related and debt instruments.

The following table sets forth the operating results of our Investment Banking segment:

Investment Banking Operating Results
(in millions)

	Three Months Ended February	
	2006	**2005**
Financial Advisory	$ 736	$ 414
Equity underwriting	283	186
Debt underwriting	452	293
Total Underwriting	735	479
Total net revenues	1,471	893
Operating expenses	1,189	787
Pre-tax earnings	$ 282	$ 106

The following table sets forth our financial advisory and underwriting transaction volumes:

Goldman Sachs Global Investment Banking Volumes [1]
(in billions)

	Three Months Ended February	
	2006	**2005**
Announced mergers and acquisitions	$ 323	$ 255
Completed mergers and acquisitions	250	123
Equity and equity-related offerings [2]	15	10
Debt offerings [3]	79	76

[1] Source: Thomson Financial. Announced and completed mergers and acquisitions volumes are based on full credit to each of the advisors in a transaction. Equity and equity-related offerings and debt offerings are based on full credit for single book managers and equal credit for joint book managers. Transaction volumes may

not be indicative of net revenues in a given period.

(2) Includes public common stock offerings and convertible offerings.

(3) Includes non-convertible preferred stock, mortgage-backed securities, asset-backed securities and taxable municipal debt. Includes publicly registered and Rule 144A issues.

Three Months Ended February 2006 versus February 2005. Net revenues in Investment Banking of $1.47 billion for the first quarter of 2006 increased 65% compared with the first quarter of 2005. Net revenues in Financial Advisory of $736 million increased 78% compared with the first quarter of 2005, primarily reflecting strong growth in industry-wide completed mergers and acquisitions. Net revenues in our Underwriting business of $735 million increased 53% compared with the first quarter of 2005, reflecting significantly higher net revenues in debt underwriting, primarily due to an increase in leveraged finance and investment-grade activity, and significantly higher net revenues in equity underwriting. Our investment banking backlog declined in the first quarter of 2006, but was significantly higher than at the end of the first quarter of 2005. [(1)]

Operating expenses of $1.19 billion for the first quarter of 2006 increased 51% compared with the first quarter of 2005, primarily due to increased compensation and benefits expenses resulting from a higher accrual of discretionary compensation. Pre-tax earnings of $282 million increased 166% compared with the first quarter of 2005.

Trading and Principal Investments

Our Trading and Principal Investments segment is divided into three components:

FICC. We make markets in and trade interest rate and credit products, mortgage-backed securities and loans, currencies, and commodities, structure and enter into a wide variety of derivative transactions and engage in proprietary trading and investing.

Equities. We make markets in, trade and act as a specialist for equities and equity-related products, structure and enter into equity derivative transactions and engage in proprietary trading. We also execute and clear client transactions on major stock, options and futures exchanges worldwide.

Principal Investments. We generate net revenues from our corporate and real estate merchant banking investments, including the increased share of the income and gains derived from our merchant banking funds when the return on a fund s investments exceeds certain threshold returns (merchant banking overrides), as well as gains or losses related to our investment in the convertible preferred stock of SMFG.

Substantially all of our inventory is marked-to-market daily and, therefore, its value and our net revenues are subject to fluctuations based on market movements. In addition, net revenues derived from our principal investments in privately held concerns and in real estate may fluctuate significantly depending on the revaluation or sale of these investments in any given period. We also regularly enter into large transactions as part of our trading businesses. The number and size of such transactions may affect our results of operations in a given period.

Net revenues from Principal Investments do not include management fees generated from our merchant banking funds. These management fees are included in the net revenues of the Asset Management and Securities Services segment.

(1) Our investment banking backlog represents an estimate of our future net revenues from investment banking transactions where we believe that future revenue realization is more likely than not.

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The following table sets forth the operating results of our Trading and Principal Investments segment:

Trading and Principal Investments Operating Results
(in millions)

	Three Months Ended February	
	2006	**2005**
FICC	$ 3,740	$ 2,489
Equities trading	1,607	829
Equities commissions	842	721
Total Equities	2,449	1,550
SMFG	405	181
Gross gains	301	177
Gross losses	(101)	(29)
Net other corporate and real estate investments	200	148
Overrides	90	15
Total Principal Investments	695	344
Total net revenues	6,884	4,383
Operating expenses	4,329	2,729
Pre-tax earnings	$ 2,555	$ 1,654

Three Months Ended February 2006 versus February 2005. Net revenues in Trading and Principal Investments of $6.88 billion for the first quarter of 2006 increased 57% compared with the first quarter of 2005. Net revenues in FICC of $3.74 billion increased 50% compared with the first quarter of 2005, as the business continued to operate in a favorable environment. Net revenues were significantly higher in credit products, commodities and currencies, as customer-driven activity was strong and market opportunities were favorable. In addition, net revenues in interest rate products were higher compared with a strong first quarter of 2005, while net revenues in mortgages were lower compared with the same prior year period. Net revenues in Equities of $2.45 billion increased 58% compared with the first quarter of 2005, as the business operated in a favorable environment, characterized by generally higher equity prices. Net revenues were significantly higher in our customer franchise and principal strategies businesses. The increase in our customer franchise businesses was primarily due to higher net revenues in derivatives and shares, reflecting strong customer-driven activity and favorable market opportunities. Net revenues in principal strategies reflected strong performance across all regions. Principal Investments recorded net revenues of $695 million, reflecting a $405 million gain related to our investment in the convertible preferred stock of SMFG and $290 million in gains and overrides from real estate and other corporate principal investments.

Operating expenses of $4.33 billion for the first quarter of 2006 increased 59% compared with the first quarter of 2005, primarily due to increased compensation and benefits expenses resulting from a higher accrual of discretionary compensation. Excluding non-compensation expenses related to consolidated entities held for investment purposes, the increase in non-compensation expenses was primarily attributable to higher brokerage, clearing and exchange fees in both Equities and FICC. In addition, other expenses were higher primarily due to costs related to our recently acquired insurance business and increased charitable contributions. Pre-tax earnings of $2.56 billion increased 54% compared with the first quarter of 2005.

Asset Management and Securities Services

Our Asset Management and Securities Services segment is divided into two components:

Asset Management. Asset Management provides investment advisory and financial planning services and offers investment products across all major asset classes to a diverse group of institutions and individuals worldwide and primarily generates revenues in the form of management and incentive fees.

Securities Services. Securities Services provides prime brokerage services, financing services and securities lending services to mutual funds, pension funds, hedge funds, foundations and high-net-worth individuals worldwide, and generates revenues primarily in the form of interest rate spreads or fees.

Assets under management typically generate fees as a percentage of asset value. In certain circumstances, we are also entitled to receive asset management incentive fees based on a percentage of a fund s return or when the return on assets under management exceeds specified benchmark returns or other performance targets. Incentive fees are recognized when the performance period ends and they are no longer subject to adjustment. We have numerous incentive fee arrangements, many of which have annual performance periods that end on December 31 and are not subject to adjustment thereafter. For that reason, incentive fees are seasonally weighted each year to our first fiscal quarter.

The following table sets forth the operating results of our Asset Management and Securities Services segment:

Asset Management and Securities Services Operating Results
(in millions)

	Three Months Ended February	
	2006	**2005**
Management and other fees	$ 750	$ 618
Incentive fees	739	131
Total Asset Management	1,489	749
Securities Services	491	380
Total net revenues	1,980	1,129
Operating expenses	1,099	713
Pre-tax earnings	$ 881	$ 416

Assets under management include our mutual funds, alternative investment funds and separately managed accounts for institutional and individual investors. Substantially all assets under management are valued as of calendar month end.

The following table sets forth our assets under management by asset class:

Assets Under Management by Asset Class [1]

(in billions)

	As of February 28,		As of November 30,	
	2006	2005	2005	2004
Money markets	$ 106	$ 99	$ 101	$ 90
Fixed income	165	139	154	134
Equity	181	144	167	133
Alternative investments [2]	119	100	110	95
Total	$ 571	$ 482	$ 532	$ 452

(1) In the first quarter of 2006, the methodology for classifying certain non-money market assets was changed. The changes were primarily to reclassify certain assets allocated to external investment managers out of alternative investment assets and to reclassify currency funds into alternative investment assets. The changes did not impact total assets under management and prior periods have been restated to conform to the current period presentation.

(2) Primarily includes private equity funds, hedge funds, real estate funds, currency funds and asset allocation strategies.

The following table sets forth a summary of the changes in our assets under management:

Changes in Assets Under Management

(in billions)

	Three Months Ended	
	February 28, 2006	February 28, 2005
Balance, beginning of period	$ 532	$ 452
Net asset inflows/(outflows)		
Money markets	5	9
Fixed income	8	6
Equity	5	9
Alternative investments	7	3
Total net asset inflows/(outflows)	25 [1]	27
Net market appreciation/(depreciation)	14	3

Balance, end of period	$ 571	$ 482

(1) Includes $3 billion of net asset inflows in connection with the December 30, 2005 acquisition of the variable annuity and variable life insurance business of The Hanover Insurance Group, Inc.

Three Months Ended February 2006 versus February 2005. Net revenues in Asset Management and Securities Services of $1.98 billion for the first quarter of 2006 increased 75% compared with the first quarter of 2005. Asset Management net revenues of $1.49 billion increased 99% compared with the first quarter of 2005, reflecting significantly higher incentive fees and a 21% increase in management and other fees. Incentive fees were $739 million for the first quarter of 2006 compared with $131 million for the same prior year period. During the quarter, assets under management increased 7% to $571 billion, reflecting net asset inflows of $25 billion across all asset classes as well as market appreciation of $14 billion in equity, fixed income and alternative investment assets. Securities Services net revenues of $491 million increased 29% compared with the first quarter of 2005, as our prime brokerage business generated strong results, primarily reflecting significantly higher global customer balances in securities lending and margin lending.

Operating expenses of $1.10 billion for the first quarter of 2006 increased 54% compared with the first quarter of 2005, primarily due to increased compensation and benefits expenses resulting from a higher accrual of discretionary compensation. In addition, occupancy expenses increased driven by higher operating expenses and increased rent. Pre-tax earnings of $881 million increased 112% compared with the first quarter of 2005.

Capital and Funding

Capital

The amount of capital we hold is principally determined by regulatory capital requirements, rating agency guidelines, subsidiary capital requirements and our overall risk profile, which is largely driven by the size and composition of our trading and investing positions. Goldman Sachs total capital (total shareholders equity and long-term borrowings) increased 12% to $143.57 billion as of February 2006 compared with $128.01 billion as of November 2005. See Liquidity Risk Cash Flows below for a discussion of how we deployed capital raised as part of our financing activities.

The increase in total capital resulted primarily from an increase in long-term borrowings to $114.65 billion as of February 2006 from $100.01 billion as of November 2005. The weighted average maturity of our long-term borrowings as of February 2006 was approximately seven years. We swap a substantial portion of our long-term borrowings into U.S. dollar obligations with short-term floating interest rates in order to minimize our exposure to interest rates and foreign exchange movements. See Note 5 to the condensed consolidated financial statements included in this Quarterly Report on Form 10-Q for further information regarding our long-term borrowings.

Over the past several years, our ratio of long-term borrowings to total shareholders equity has been increasing. The growth in our long-term borrowings has been driven primarily by (i) our ability to replace a portion of our short-term borrowings with long-term borrowings and pre-fund near-term refinancing requirements, in light of the favorable debt financing environment, and (ii) the need to increase total capital in response to growth in our trading and investing businesses.

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Total shareholders equity increased by 3% to $28.92 billion (common equity of $27.17 billion and preferred stock of $1.75 billion) as of February 2006 from $28.00 billion as of November 2005. As of February 2006, Goldman Sachs had 70,000 shares of preferred stock outstanding in three series as set forth in the following table:

Preferred Stock by Series

Series	Description	Shares Issued	Shares Authorized	Earliest Redemption Date	Redemption Value (in millions)
A	Perpetual Floating Rate Non-Cumulative	30,000	50,000	April 25, 2010	$ 750
B	Perpetual 6.20% Non-Cumulative	32,000	50,000	October 31, 2010	800
C	Perpetual Floating Rate Non-Cumulative	8,000	25,000	October 31, 2010	200
		70,000	125,000		$ 1,750

Each share of preferred stock has a par value of $0.01, has a liquidation preference of $25,000, is represented by 1,000 depositary shares and is redeemable at our option at a redemption price equal to $25,000 plus declared and unpaid dividends. Our ability to declare or pay dividends on, or purchase, redeem or otherwise acquire, our common stock is subject to certain restrictions in the event we fail to pay or set aside full dividends on our preferred stock for the latest completed dividend period. All preferred stock also has a preference over our common stock upon liquidation.

Our stock repurchase program is intended to maintain our total shareholders equity at appropriate levels and to substantially offset increases in share count over time resulting from employee share-based compensation. The repurchase program has been effected primarily through regular open-market purchases and is influenced by, among other factors, the level of our common shareholders equity, our overall capital position, share-based awards and exercises of employee stock options, the prevailing market price of our common stock and general market conditions.

During the three months ended February 2006, we repurchased 19.1 million shares of our common stock at a total cost of $2.58 billion. The average price paid per share for repurchased shares was $134.75 for the three months ended February 2006. In addition, to satisfy minimum statutory employee tax withholding requirements related to the delivery of shares underlying restricted stock units, we cancelled 2.9 million restricted stock units at a total cost of $371 million in the first quarter of 2006. As of February 2006, we were authorized to repurchase up to 23.7 million additional shares of stock pursuant to our repurchase program. For additional information on our repurchase program, see Unregistered Sales of Equity Securities and Use of Proceeds included in Part II, Item 2 of this Quarterly Report on Form 10-Q.

The following table sets forth information on our assets, shareholders equity, leverage ratios and book value per common share:

	As of	
	February 2006	November 2005
	($ in millions, except per share amounts)	
Total assets	$ 758,821	$ 706,804
Adjusted assets [1]	495,365	466,500
Total shareholders equity	28,915	28,002
Tangible equity capital [2]	26,996	26,030
Leverage ratio [3]	26.2x	25.2x
Adjusted leverage ratio [4]	18.3x	17.9x
Debt to equity ratio [5]	4.0x	3.6x
Common shareholders equity	27,165	26,252
Tangible common shareholders equity [6]	22,496	21,530
Book value per common share [7]	$ 60.42	$ 57.02
Tangible book value per common share [8]	50.04	46.76

(1) Adjusted assets excludes (i) low-risk collateralized assets generally associated with our matched book and securities lending businesses (which we calculate by adding our securities purchased under agreements to resell and securities borrowed, and then subtracting our nonderivative short positions), (ii) cash and securities we segregate for regulatory and other purposes and (iii) goodwill and certain identifiable intangible assets (primarily customer lists and specialist rights). In the first quarter of 2006, we amended our calculation of adjusted assets to deduct only certain identifiable intangible assets from total assets. We no longer deduct identifiable intangible assets associated with power contracts and we do not deduct VOBA, which is related to our insurance business acquired in the first quarter of 2006. Prior periods have been restated to conform to the current period presentation. The following table sets forth a reconciliation of total assets to adjusted assets:

		As of	
		February 2006	November 2005
		(in millions)	
Total assets		$ 758,821	$ 706,804
Deduct:	Securities borrowed	(200,017)	(191,800)
	Securities purchased under agreements to resell	(96,442)	(83,619)
Add:		153,887	149,071

	Financial instruments sold, but not yet purchased, at fair value		
	Less derivative liabilities	(55,259)	(57,829)
	Subtotal	98,628	91,242
Deduct:	Cash and securities segregated for regulatory and other purposes	(60,956)	(51,405)
	Goodwill and certain identifiable intangible assets	(4,669)	(4,722)
Adjusted assets		$ 495,365	$ 466,500

(2) Tangible equity capital equals total shareholders equity and junior subordinated debt issued to a trust less goodwill and certain identifiable intangible assets (primarily customer lists and specialist rights). In the first quarter of 2006, we amended our calculation of tangible equity capital to deduct only certain identifiable intangible assets from total shareholders equity. We no longer deduct identifiable intangible assets associated with power contracts and we do not deduct VOBA, which is related to our insurance business acquired in the first quarter of 2006. Prior periods have been restated to conform to the current period presentation. We consider junior subordinated debt issued to a trust to be a component of our tangible equity capital base due to the inherent characteristics of these securities, including the long-term nature of the securities, our ability to defer coupon interest for up to ten consecutive semiannual periods and the subordinated nature of the obligations in our capital structure.

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The following table sets forth the reconciliation of total shareholders equity to tangible equity capital:

	As of	
	February 2006	November 2005
	(in millions)	
Total shareholders equity	$ 28,915	$ 28,002
Add: Junior subordinated debt issued to a trust	2,750	2,750
Deduct: Goodwill and certain identifiable intangible assets	(4,669)	(4,722)
Tangible equity capital	$ 26,996	$ 26,030

(3) Leverage ratio equals total assets divided by total shareholders equity.

(4) Adjusted leverage ratio equals adjusted assets divided by tangible equity capital. We believe that the adjusted leverage ratio is a more meaningful measure of our capital adequacy than the leverage ratio because it excludes certain low-risk collateralized assets that are generally supported with little or no capital and reflects the tangible equity capital deployed in our businesses.

(5) Debt to equity ratio equals long-term borrowings divided by total shareholders equity.

(6) Tangible common shareholders equity equals total shareholders equity less preferred stock, goodwill and certain identifiable intangible assets (primarily customer lists and specialist rights). In the first quarter of 2006, we amended our calculation of tangible common shareholders equity to deduct only certain identifiable intangible assets from total shareholders equity. We no longer deduct identifiable intangible assets associated with power contracts and we do not deduct VOBA, which is related to our insurance business acquired in the first quarter of 2006. Prior periods have been restated to conform to the current period presentation. The following table sets forth a reconciliation of total shareholders equity to tangible common shareholders equity:

	As of	
	February 2006	November 2005
	(in millions)	
Total shareholders equity	$ 28,915	$ 28,002
Deduct: Preferred stock	(1,750)	(1,750)
Common shareholders equity	27,165	26,252
Deduct: Goodwill and certain identifiable intangible assets	(4,669)	(4,722)
Tangible common shareholders equity	$ 22,496	$ 21,530

(7) Book value per common share is based on common shares outstanding, including restricted stock units granted to employees with no future service requirements, of 449.6 million as of February 2006 and 460.4 million as of November 2005.

(8) Tangible book value per common share is computed by dividing tangible common shareholders equity by the number of common shares outstanding, including restricted stock units granted to employees with no future service requirements.

Consolidated Supervised Entity

Goldman Sachs is regulated by the U.S. Securities and Exchange Commission (SEC) as a Consolidated Supervised Entity (CSE). As such, it is subject to group-wide supervision and examination by the SEC and to minimum capital requirements on a consolidated basis. As of February 2006 and November 2005, Goldman Sachs was in compliance with the CSE capital requirements. See Note 14 to the condensed consolidated financial statements included in this Quarterly Report on Form 10-Q for further information regarding our regulated subsidiaries.

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Short-Term Borrowings

Goldman Sachs obtains short-term borrowings primarily through the use of promissory notes, commercial paper, secured debt and bank loans. Short-term borrowings also include the portion of long-term borrowings maturing within one year of our financial statement date and certain long-term borrowings that are redeemable within one year of our financial statement date at the option of the holder.

The following table sets forth our short-term borrowings by product:

Short-Term Borrowings
(in millions)

	As of	
	February 2006	**November 2005**
Promissory notes	$ 18,996	$ 17,339
Commercial paper	5,533	5,154
Secured debt, bank loans and other	16,352	15,975
Current portion of secured and unsecured long-term borrowings	17,471	16,751
Total [1]	$ 58,352	$ 55,219

[1] Short-term borrowings as of February 2006 include $325 million of hybrid financial instruments accounted for at fair value under SFAS No. 155, Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140.

Our liquidity depends to an important degree on our ability to refinance these borrowings on a continuous basis. Investors who hold our outstanding promissory notes (short-term unsecured debt that is nontransferable and in which Goldman Sachs does not make a market) and commercial paper have no obligation to purchase new instruments when the outstanding instruments mature.

The following table sets forth our secured and unsecured short-term borrowings:

	As of	
	February 2006	**November 2005**
	(in millions)	
Secured short-term borrowings	$ 8,482	$ 7,972
Unsecured short-term borrowings	49,870	47,247
Total short-term borrowings	$ 58,352	$ 55,219

A large portion of our secured short-term borrowings are similar in nature to our other collateralized financing sources such as securities sold under agreements to repurchase. These secured short-term borrowings provide

Goldman Sachs with a more stable source of liquidity than unsecured short-term borrowings, as they are less sensitive to changes in our credit ratings due to underlying collateral. Our unsecured short-term borrowings include extendible debt if the earliest maturity occurs within one year of our financial statement date. Extendible debt is debt that allows the holder the right to extend the maturity date at predetermined periods during the contractual life of the instrument. These borrowings can be, and in the past generally have been, extended. See Liquidity Risk below for a discussion of the principal liquidity policies we have in place to manage the liquidity risk associated with our short-term borrowings. For a discussion of factors that could impair our ability to access the capital markets, see Risk Factors in Part I, Item 1A of the Annual Report on Form 10-K. See Note 4 to the condensed consolidated financial statements included in this Quarterly Report on Form 10-Q for further information regarding our short-term borrowings.

Credit Ratings

We rely upon the short-term and long-term debt capital markets to fund a significant portion of our day-to-day operations. The cost and availability of debt financing is influenced by our credit ratings. Credit ratings are important when we are competing in certain markets and when we seek to engage in longer term transactions, including OTC derivatives. We believe our credit ratings are primarily based on the credit rating agencies assessment of our liquidity, market, credit and operational risk management practices, the level and variability of our earnings, our capital base, our franchise, reputation and management, our corporate governance and the external operating environment. See Risk Factors in Part I, Item 1A of the Annual Report on Form 10-K for a discussion of the risks associated with a reduction in our credit ratings.

The following table sets forth our unsecured credit ratings as of February 2006:

	Short-Term Debt	Long-Term Debt	Preferred Stock
Dominion Bond Rating Service Limited	R-1 (middle)	AA (low) [(1)]	N/A
Fitch, Inc.	F1+	AA-	A+
Moody s Investors Service	P-1	Aa3	A2
Standard & Poor s[(2)]	A-1	A+	A-

[(1)] On March 17, 2006, Dominion Bond Rating Service Limited upgraded Goldman Sachs long-term debt issuer rating from A (high) to AA (low).

[(2)] On October 11, 2005, Standard & Poor s affirmed Goldman Sachs long-term debt rating and revised its outlook from stable to positive.

As of February 2006, collateral or termination payments pursuant to bilateral agreements with certain counterparties of approximately $459 million would have been required in the event of a one-level reduction in our long-term credit ratings. In evaluating our liquidity requirements, we consider additional collateral or termination payments that would be required in the event of further reductions in our long-term credit ratings, as well as collateral that has not been called by counterparties, but is available to them. For a further discussion of our excess liquidity policies, see Liquidity Risk Excess Liquidity Maintenance of a Pool of Highly Liquid Securities below.

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Contractual Obligations and Commitments

Goldman Sachs has contractual obligations to make future payments under long-term debt and long-term noncancelable lease agreements and has commitments under a variety of commercial arrangements.

The following table sets forth our contractual obligations by fiscal maturity date as of February 2006:

Contractual Obligations
(in millions)

	Remainder 2006	2007-2008	2009-2010	2011-Thereafter	Total
Long-term borrowings [1] [2] [3]	$	$ 24,920	$ 29,310	$ 60,421	$ 114,651
Minimum rental payments	302	907	621	2,199	4,029

(1) Long-term borrowings maturing within one year of our financial statement date and certain long-term borrowings that are redeemable within one year of our financial statement date at the option of the holder are included as short-term borrowings in the condensed consolidated statements of financial condition.

(2) Long-term borrowings that are repayable prior to maturity at the option of Goldman Sachs are reflected at their contractual maturity dates. Long-term borrowings that are redeemable prior to maturity at the option of the holder are reflected at the dates such options become exercisable.

(3) Long-term borrowings as of February 2006 include $835 million of hybrid financial instruments accounted for at fair value under SFAS No. 155.

As of February 2006, our long-term borrowings were $114.65 billion and consisted principally of senior borrowings with maturities extending to 2035. These long-term borrowings consisted of $18.52 billion in secured long-term borrowings and $96.13 billion in unsecured long-term borrowings. As of February 2006, long-term borrowings included nonrecourse debt of $16.34 billion, consisting of $7.12 billion issued by William Street Funding Corporation (a wholly owned subsidiary of Group Inc. formed to raise funding to support loan commitments to investment-grade clients made by another wholly owned William Street entity), and $9.22 billion issued by other consolidated entities, of which $1.05 billion was related to our power generation facilities. Nonrecourse debt is debt that only the issuing subsidiary or, if applicable, a subsidiary guaranteeing the debt is obligated to repay. See Note 5 to the condensed consolidated financial statements included in this Quarterly Report on Form 10-Q for further information regarding our long-term borrowings.

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The following table sets forth our quarterly long-term borrowings maturity profile through the first fiscal quarter of 2012:

Long-Term Borrowings Maturity Profile
($ in millions)

(1) Our long-term borrowings include extendible debt if the earliest maturity is one year or greater from our financial statement date. Extendible debt is categorized in the maturity profile at the earliest possible maturity even though the debt can be, and in the past generally has been, extended.

As of February 2006, our future minimum rental payments, net of minimum sublease rentals, under noncancelable leases were $4.03 billion. These lease commitments, principally for office space, expire on various dates through 2069. Certain agreements are subject to periodic escalation provisions for increases in real estate taxes and other charges. See Note 6 to the condensed consolidated financial statements included in this Quarterly Report on Form 10-Q for further information regarding our leases.

Our occupancy expenses include costs associated with office space held in excess of our current requirements. This excess space, the cost of which is charged to earnings as incurred, is being held for potential growth or to replace currently occupied space that we may exit in the future. We regularly evaluate our current and future space capacity in relation to current and projected staffing levels. We may incur exit costs in fiscal 2006 and thereafter to the extent we (i) reduce our space capacity or (ii) commit to, or occupy, new properties in the locations in which we operate and, consequently, dispose of existing space that had been held for potential growth. These exit costs may be material to our results of operations in a given period.

As of February 2006, we had commitments to enter into forward secured financing transactions, including certain repurchase and resale agreements and secured borrowing and lending arrangements, of $52.36 billion.

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On February 24, 2006, Goldman Sachs entered into an agreement to sell its interest in East Coast Power LLC to General Electric Capital Corporation, subject to the receipt of regulatory approvals and other closing conditions. The transaction is expected to close during our second or third fiscal quarter of 2006, and depending on the level of net revenues in such period, the resulting gain may be material to our results of operations.

The following table sets forth our commitments as of February 2006:

Commitments
(in millions)

	Commitment Amount by Fiscal Period of Expiration				
	Remainder of 2006	**2007-2008**	**2009-2010**	**2011-Thereafter**	**Total**
Commitments to extend credit					
William Street program	$ 1,535	$ 1,865	$ 8,600	$ 2,943	$ 14,943

(1) Includes construction-related commitments and other purchase commitments.

Our commitments to extend credit are agreements to lend to counterparties that have fixed termination dates and are contingent on the satisfaction of all conditions to borrowing set forth in the contract. In connection with our lending activities, we had outstanding commitments of $58.42 billion as of February 2006 compared with $61.12 billion as of November 2005. Since these commitments may expire unused, the total commitment amount does not necessarily reflect the actual future cash flow requirements. Our commercial lending commitments outside the William Street credit extension program are generally extended in connection with contingent acquisition financing and other types of corporate lending. We may reduce our credit risk on these commitments by syndicating all or substantial portions of commitments to other investors. In addition, commitments that are extended for contingent acquisition financing are often short-term in nature, as borrowers often replace them with other funding sources. With respect to the William Street credit extension program, substantially all of the commitments extended are to investment-grade corporate borrowers. With respect to these commitments, we have credit loss protection provided to us by SMFG, which is generally limited to 95% of the first loss we realize on approved loan commitments, subject to a maximum of $1.00 billion. In addition, subject to the satisfaction of certain conditions, upon our request, SMFG will provide protection for 70% of the second loss on such commitments, subject to a maximum of $1.13 billion. We also use other financial instruments to hedge certain William Street commitments not covered by SMFG. Our commitments to extend credit also include financing for the warehousing of financial assets to be securitized, primarily in connection with collateralized debt obligations (CDOs) and mortgage securitizations, which are expected to be repaid from the proceeds of the related securitizations for which we may or may not act as underwriter. These arrangements are secured by the warehoused assets, primarily consisting of mortgage-backed and other asset-backed securities, residential and commercial mortgages and corporate debt instruments.

As of February 2006 and November 2005, we had construction-related commitments of $1.17 billion and $579 million, respectively, including commitments of $1.03 billion and $481 million, respectively, related to the development of wind energy projects. Construction-related commitments also include outstanding commitments of $79 million and $47 million as of February 2006 and November 2005, respectively, related to our new world headquarters in New York City, expected to cost between $2.3 billion and $2.5 billion.

In January 2006, we entered into a definitive agreement to invest $2.58 billion in Industrial and Commercial Bank of China Limited (ICBC), with investment funds managed by Goldman Sachs assuming a substantial portion of our economic interest. The transaction is expected to close during our second fiscal quarter of 2006, subject to the receipt of regulatory approvals and other closing conditions.

See Note 6 to the condensed consolidated financial statements included in this Quarterly Report on Form 10-Q for further information regarding our commitments, contingencies and guarantees.

Liquidity Risk

Liquidity is of critical importance to companies in the financial services sector. Most failures of financial institutions have occurred in large part due to insufficient liquidity resulting from adverse circumstances. Accordingly, Goldman Sachs has in place a comprehensive set of liquidity and funding policies that are intended to maintain significant flexibility to address both firm-specific and broader industry or market liquidity events. Our principal objective is to be able to fund Goldman Sachs and to enable our core businesses to continue to generate revenue even under adverse circumstances.

Management has implemented a number of policies according to the following liquidity risk management framework:

Excess Liquidity maintain substantial excess liquidity to meet a broad range of potential cash outflows in a stressed environment including financing obligations.

Asset-Liability Management ensure we fund our assets with appropriate financing.

Intercompany Funding maintain parent company liquidity and manage the distribution of liquidity across the group structure.

Crisis Planning ensure all funding and liquidity management is based on stress-scenario planning and feeds into our liquidity crisis plan.

Excess Liquidity

Maintenance of a Pool of Highly Liquid Securities. Our most important liquidity policy is to pre-fund what we estimate will be our likely cash needs during a liquidity crisis and hold such excess liquidity in the form of unencumbered, highly liquid securities that may be sold or pledged to provide same-day liquidity. This Global Core Excess liquidity is intended to allow us to meet immediate obligations without needing to sell other assets or depend on additional funding from credit-sensitive markets. We believe that this pool of excess liquidity provides us with a resilient source of funds and gives us significant flexibility in managing through a difficult funding environment. Our Global Core Excess reflects the following principles:

The first days or weeks of a liquidity crisis are the most critical to a company s survival.

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Focus must be maintained on all potential cash and collateral outflows, not just disruptions to financing flows. Goldman Sachs businesses are diverse, and its cash needs are driven by many factors, including market movements, collateral requirements and client commitments, all of which can change dramatically in a difficult funding environment.

During a liquidity crisis, credit-sensitive funding, including unsecured debt and some types of secured financing agreements, may be unavailable and the terms or availability of other types of secured financing may change.

As a result of our policy to pre-fund liquidity that we estimate may be needed in a crisis, we hold more unencumbered securities and larger unsecured debt balances than our businesses would otherwise require. We believe that our liquidity is stronger with greater balances of highly liquid unencumbered securities, even though it increases our unsecured liabilities.

The following table sets forth the average loan value (the estimated amount of cash that would be advanced by counterparties against these securities) of our Global Core Excess:

	Three Months Ended February 2006	Fiscal Year Ended November 2005
	(in millions)	
U.S. dollar-denominated	$ 35,445	$ 35,310
Non-U.S. dollar-denominated	9,318	11,029
Total Global Core Excess	$ 44,763	$ 46,339

The U.S. dollar-denominated excess is comprised of only unencumbered U.S. government and agency securities and highly liquid mortgage securities, all of which are Federal Reserve repo-eligible, as well as overnight cash deposits. Our non-U.S. dollar-denominated excess is comprised of only unencumbered French, German, United Kingdom and Japanese government bonds and euro, British pound and Japanese yen overnight cash deposits. We strictly limit our Global Core Excess to this narrowly defined list of securities and cash that we believe are highly liquid, even in a difficult funding environment.

The majority of our Global Core Excess is structured such that it is available to meet the liquidity requirements of our parent company, Group Inc., and all of its subsidiaries. The remainder is held in our principal non-U.S. operating entities, primarily to better match the currency and timing requirements for those entities potential liquidity obligations.

The size of our Global Core Excess is determined by an internal liquidity model together with a qualitative assessment of the condition of the financial markets and of Goldman Sachs. Our liquidity model identifies and estimates cash and collateral outflows over a short-term horizon in a liquidity crisis, including, but not limited to:

upcoming maturities of unsecured debt and letters of credit;

potential buybacks of a portion of our outstanding negotiable unsecured debt;

adverse changes in the terms or availability of secured funding;

derivatives and other margin and collateral outflows, including those due to market moves or increased requirements;

additional collateral that could be called in the event of a downgrade in our credit ratings;

draws on our unfunded commitments not supported by William Street Funding Corporation [1]; and

upcoming cash outflows, such as tax and other large payments.

[1] The Global Core Excess excludes liquid assets held separately to support the William Street credit extension program.

Other Unencumbered Assets. In addition to our Global Core Excess described above, we have a significant amount of other unencumbered securities as a result of our business activities. These assets, which are located in the United States, Europe and Asia, include other government bonds, high-grade money market securities, corporate bonds and marginable equities. We do not include these securities in our Global Core Excess.

We maintain Global Core Excess and other unencumbered assets in an amount that, if pledged or sold, would provide the funds necessary to replace at least 110% of our unsecured obligations that are scheduled to mature (or where holders have the option to redeem) within the next 12 months. This implies that we could fund our positions on a secured basis for one year in the event we were unable to issue new unsecured debt or liquidate assets. We assume conservative loan values that are based on stress-scenario borrowing capacity and we regularly review these assumptions asset-by-asset. The estimated aggregate loan value of our Global Core Excess and our other unencumbered assets averaged $121.12 billion and $125.36 billion in the first quarter of 2006 and fiscal year 2005, respectively.

Asset-Liability Management

Asset Quality and Balance Sheet Composition. We seek to maintain a highly liquid balance sheet and substantially all of our inventory is marked-to-market daily. We utilize aged inventory limits for certain financial instruments as a disincentive to our businesses to hold inventory over longer periods of time. We believe that these limits provide a complementary mechanism for ensuring appropriate balance sheet liquidity in addition to our standard position limits. In addition, we periodically reduce the size of certain parts of our balance sheet to comply with period end limits set by management. Because of these periodic reductions and certain other factors including seasonal activity, market conventions and periodic market opportunities in certain of our businesses that result in larger positions during the middle of our reporting periods, our balance sheet fluctuates between financial statement dates and is lower at fiscal period end than would be observed on an average basis. Over the last six quarters, our total assets and adjusted assets at quarter end have been, on average, 7% and 9% lower, respectively, than amounts that would have been observed based on a weekly average over that period. These differences, however, have not resulted in material changes to our credit risk, market risk or liquidity position because they are generally in highly liquid assets that are typically financed on a secured basis.

Certain financial instruments may be more difficult to fund on a secured basis during times of market stress and, accordingly, we generally hold higher levels of capital for these assets than more liquid types of financial instruments. The table below sets forth our aggregate holdings in these categories of financial instruments:

	As of	
	February 2006	**November 2005**
	(in millions)	
Mortgage whole loans and collateralized debt obligations (1)	$ 38,697	$ 31,459
Bank loans (2)	17,215	13,843
High-yield securities	10,208	8,822
Emerging market debt securities	2,392	1,789
SMFG convertible preferred stock	4,734	4,058
Other corporate principal investments (3)	2,319	1,723
Real estate principal investments (3)	686	745

(1)

Includes certain mortgage-backed interests held in QSPEs. See Note 2 to the condensed consolidated financial statements included in this Quarterly Report on Form 10-Q for further information regarding our securitization activities.

(2) Includes funded commitments and inventory held in connection with our origination and secondary trading activities.

(3) Excludes assets for which Goldman Sachs is not at risk (e.g., assets related to consolidated employee-owned merchant banking funds) of $2.09 billion and $1.93 billion as of February 2006 and November 2005, respectively.

A large portion of these assets are funded on a secured basis through secured funding markets or nonrecourse financing. We focus on demonstrating a consistent ability to fund these assets on a secured basis for extended periods of time to reduce refinancing risk and to help ensure that these assets have an established amount of loan value in order that they can be funded in periods of market stress.

See Note 3 to the condensed consolidated financial statements included in this Quarterly Report on the Form 10-Q for further information regarding the financial instruments we hold.

Appropriate Financing of Asset Base. We seek to manage the maturity profile of our funding base such that we should be able to liquidate our assets prior to our liabilities coming due, even in times of prolonged or severe liquidity stress. We generally do not rely on immediate sales of assets (other than our Global Core Excess) to maintain liquidity in a distressed environment. However, we recognize that orderly asset sales may be prudent and necessary in a persistent liquidity crisis.

In order to avoid reliance on asset sales, our goal is to ensure that we have sufficient total capital (long-term borrowings plus total shareholders equity) to fund our balance sheet for at least one year. We seek to maintain total capital in excess of the aggregate of the following long-term financing requirements:

- the portion of financial instruments owned that we believe could not be funded on a secured basis in periods of market stress, assuming conservative loan values;
- goodwill and identifiable intangible assets, property, leasehold improvements and equipment, and other illiquid assets;
- derivative and other margin and collateral requirements;
- anticipated draws on our unfunded loan commitments; and
- capital or other forms of financing in our regulated subsidiaries that is in excess of their long-term financing requirements. See Intercompany Funding below for a further discussion of how we fund our subsidiaries.

Our total capital of $143.57 billion and $128.01 billion as of February 2006 and November 2005, respectively, exceeded the aggregate of these requirements.

Conservative Liability Structure. We structure our liabilities conservatively to reduce refinancing risk as well as the risk that we may redeem or repurchase certain of our borrowings prior to their contractual maturity. For example, we may repurchase Goldman Sachs commercial paper through the ordinary course of business as a market maker. As such, we emphasize the use of promissory notes (in which Goldman Sachs does not make a market) over commercial paper in order to improve the stability of our short-term unsecured financing base. We have also created internal guidelines regarding the principal amount of debt maturing on any one day or during any single week or year and have average maturity targets for our unsecured debt programs.

We seek to maintain broad and diversified funding sources globally for both secured and unsecured funding. We have imposed various internal guidelines, including the amount of our commercial paper that can be owned and letters of credit that can be issued by any single investor or group of investors. We benefit from distributing our debt issuances through our own sales force to a large, diverse global creditor base and we believe that our relationships with our creditors are critical to our liquidity.

We access funding in a variety of markets in the United States, Europe and Asia. We issue debt through syndicated U.S. registered offerings, U.S. registered and 144A medium-term note programs, offshore medium-term note offerings and other bond offerings, U.S. and non-U.S. commercial paper and promissory note issuances, and other methods. We make extensive use of the repurchase agreement and securities lending markets and arrange for letters of credit to be issued on our behalf.

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Additionally, unsecured debt issued by Group Inc. does not contain provisions that would, based solely upon an adverse change in our credit ratings, financial ratios, earnings, cash flows or our stock price, trigger a requirement for an early payment, collateral support, change in terms, acceleration of maturity or the creation of an additional financial obligation.

Intercompany Funding

Subsidiary Funding Policies. Substantially all of our unsecured funding is raised by our parent company, Group Inc. The parent company then lends the necessary funds to its subsidiaries, some of which are regulated, to meet their asset financing and capital requirements. In addition, the parent company provides its regulated subsidiaries with the necessary capital to meet their regulatory requirements. The benefits of this approach to subsidiary funding include enhanced control and greater flexibility to meet the funding requirements of our subsidiaries.

Our intercompany funding policies are predicated on an assumption that, unless legally provided for, funds or securities are not freely available from a subsidiary to its parent company or other subsidiaries. In particular, many of our subsidiaries are subject to laws that authorize regulatory bodies to block or limit the flow of funds from those subsidiaries to Group Inc. Regulatory action of that kind could impede access to funds that Group Inc. needs to make payments on obligations, including debt obligations. As such, we assume that capital or other financing provided to our regulated subsidiaries is not available to our parent company or other subsidiaries. In addition, we assume that the Global Core Excess held in our principal non-U.S. operating entities will not be available to our parent company or other subsidiaries and therefore is available only to meet the potential liquidity requirements of those entities.

We also manage our intercompany exposure by requiring senior and subordinated intercompany loans to have maturities equal to or shorter than the maturities of the aggregate borrowings of the parent company. This policy ensures that the subsidiaries obligations to the parent company will generally mature in advance of the parent company s third-party borrowings. In addition, many of our subsidiaries and affiliates pledge collateral at loan value to the parent company to cover their intercompany borrowings (other than subordinated debt) in order to mitigate parent company liquidity risk.

Equity investments in subsidiaries are generally funded with parent company equity capital. As of February 2006, Group Inc. s equity investment in subsidiaries was $27.41 billion compared with its total shareholders equity of $28.92 billion.

Group Inc. has provided substantial amounts of equity and subordinated indebtedness, directly or indirectly, to its regulated subsidiaries; for example, as of February 2006, Group Inc. had $17.51 billion of such equity and subordinated indebtedness invested in Goldman, Sachs & Co., its principal U.S. registered broker-dealer; $17.86 billion invested in Goldman Sachs International, a regulated U.K. broker-dealer; $2.42 billion invested in Goldman Sachs Execution & Clearing, L.P., a U.S. registered broker-dealer; and $2.22 billion invested in Goldman Sachs (Japan) Ltd., a regulated broker-dealer based in Tokyo. Group Inc. also had $46.13 billion of unsubordinated loans to these entities as of February 2006, as well as significant amounts of capital invested in and loans to its other regulated subsidiaries.

Subsidiary Foreign Exchange Policies. Our capital invested in non-U.S. subsidiaries is generally exposed to foreign exchange risk, substantially all of which is hedged. In addition, we generally hedge the nontrading exposure to foreign exchange risk that arises from transactions denominated in currencies other than the transacting entity s functional currency.

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Crisis Planning

In order to be prepared for a liquidity event, or a period of market stress, we base our liquidity risk management framework and our resulting funding and liquidity policies on conservative stress-scenario planning.

In addition, we maintain a liquidity crisis plan that specifies an approach for analyzing and responding to a liquidity-threatening event. The plan provides the framework to estimate the likely impact of a liquidity event on Goldman Sachs based on some of the risks identified above and outlines which and to what extent liquidity maintenance activities should be implemented based on the severity of the event. It also lists the crisis management team and internal and external parties to be contacted to ensure effective distribution of information.

Cash Flows

As a global financial institution, our cash flows are complex and interrelated and bear little relation to our net earnings and net assets and, consequently, we believe that traditional cash flow analysis is less meaningful in evaluating our liquidity position than the excess liquidity and asset-liability management policies described above. Cash flow analysis may, however, be helpful in highlighting certain macro trends and strategic initiatives in our business.

Three Months Ended February 2006. Our cash and cash equivalents decreased by $3.69 billion to $6.57 billion at the end of the first quarter of 2006. We raised $16.89 billion in net cash from financing activities, primarily in long-term debt, in light of the favorable debt financing environment, partially offset by common stock repurchases. We used net cash of $20.58 billion in our operating and investing activities, primarily to capitalize on trading and investing opportunities for ourselves and our clients.

Three Months Ended February 2005. Our cash and cash equivalents increased by $1.17 billion to $5.53 billion at the end of the first quarter of 2005. We raised $7.90 billion in net cash from financing activities, primarily in long-term debt, in light of the favorable debt financing environment, partially offset by common stock repurchases. We used net cash of $6.73 billion in our operating and investing activities, primarily to capitalize on trading and investing opportunities for ourselves and our clients.

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Recent Accounting Developments

In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123-R, Share-Based Payment, which is a revision to SFAS No. 123, Accounting for Stock-Based Compensation. SFAS No. 123-R focuses primarily on accounting for transactions in which an entity obtains employee services in exchange for share-based payments. Under SFAS No. 123-R, the cost of employee services received in exchange for an award of equity instruments is generally measured based on the grant-date fair value of the award. Effective for the first quarter of 2006, we adopted SFAS No. 123-R, under the modified prospective adoption method. Under that method of adoption, the provisions of SFAS No. 123-R are generally applied only to share-based awards granted subsequent to adoption. The accounting treatment of share-based awards granted to retirement-eligible employees prior to our adoption of SFAS No. 123-R has not changed and financial statements for periods prior to adoption are not restated for the effects of adopting SFAS No. 123-R.

SFAS No. 123-R requires expected forfeitures to be included in determining share-based employee compensation expense. Prior to the adoption of SFAS No. 123-R, forfeiture benefits were recorded as a reduction to compensation expense when an employee left the firm and forfeited the award. In the first quarter of 2006, we recorded a benefit for expected forfeitures on all outstanding share-based awards. The transition impact of adopting SFAS No. 123-R as of the first day of our 2006 fiscal year, including the effect of accruing for expected forfeitures on outstanding share-based awards, was not material to our results of operations for the quarter.

SFAS No. 123-R requires the immediate expensing of share-based awards granted to retirement-eligible employees, including awards subject to non-compete agreements. Share-based awards granted to retirement-eligible employees prior to the adoption of SFAS No. 123-R must continue to be amortized over the stated service period of the award (and accelerated if the employee actually retires). Consequently, our compensation and benefits expenses in fiscal 2006 (and, to a lesser extent, in fiscal 2007 and fiscal 2008) will include both the amortization (and acceleration) of awards granted to retirement-eligible employees prior to the adoption of SFAS No. 123-R as well as the full grant-date fair value of new awards granted to such employees under SFAS No. 123-R. The estimated annual noncash expense in fiscal 2006 associated with the continued amortization of share-based awards granted to retirement-eligible employees prior to the adoption of SFAS No. 123-R is approximately $650 million, of which $237 million was recognized in the first quarter.

In June 2005, the EITF reached consensus on Issue No. 04-5, Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights, which requires general partners (or managing members in the case of limited liability companies) to consolidate their partnerships or to provide limited partners with rights to remove the general partner or to terminate the partnership. Goldman Sachs, as the general partner of numerous merchant banking and asset management partnerships, is required to adopt the provisions of EITF 04-5 (i) immediately for partnerships formed or modified after June 29, 2005 and (ii) in the first quarter of fiscal 2007 for partnerships formed on or before June 29, 2005 that have not been modified. We generally expect to provide limited partners in these funds with rights to remove Goldman Sachs or rights to terminate the partnerships and, therefore, do not expect that EITF 04-5 will have a material effect on our financial condition, results of operations or cash flows.

In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140. SFAS No. 155 permits an entity to measure at fair value any financial instrument that contains an embedded derivative that otherwise would require bifurcation. As permitted, we early adopted SFAS No. 155 in the first quarter of 2006. Adoption did not have a material effect on our financial condition, results of operations or cash flows.

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Effective for the first quarter of 2006, we adopted SFAS No. 156, Accounting for Servicing of Financial Assets an amendment of FASB Statement No. 140, which permits entities to elect to measure servicing assets and servicing liabilities at fair value and report changes in fair value in earnings. Goldman Sachs acquires residential mortgage servicing rights in connection with its mortgage securitization activities and has elected under SFAS No. 156 to account for these servicing rights at fair value. Adoption did not have a material effect on our financial condition, results of operations or cash flows.

Cautionary Statement Pursuant to the Private Securities Litigation Reform Act of 1995

We have included in Parts I and II of this Quarterly Report on Form 10-Q, and from time to time our management may make, statements which may constitute forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are not historical facts but instead represent only our belief regarding future events, many of which, by their nature, are inherently uncertain and outside of our control. It is possible that our actual results may differ, possibly materially, from the anticipated results indicated in these forward-looking statements. Important factors that could cause actual results to differ from those in our specific forward-looking statements include, but are not limited to, those discussed under Risk Factors in Part I, Item 1A of the Annual Report on Form 10-K.

Statements about our investment banking transaction backlog also may constitute forward-looking statements. Such statements are subject to the risk that the terms of these transactions may be modified or that they may not be completed at all; therefore, the net revenues that we expect to earn from these transactions may differ, possibly materially, from those currently expected. Important factors that could result in a modification of the terms of a transaction or a transaction not being completed include, in the case of underwriting transactions, a decline in general economic conditions, volatility in the securities markets generally or an adverse development with respect to the issuer of the securities and, in the case of financial advisory transactions, a decline in the securities markets, an adverse development with respect to a party to the transaction or a failure to obtain a required regulatory approval. Other important factors that could adversely affect our investment banking transactions are described under Risk Factors in Part I, Item 1A of the Annual Report on Form 10-K.

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Item 3: Quantitative and Qualitative Disclosures About Market Risk

In addition to applying business judgment, senior management uses a number of quantitative tools to manage our exposure to market risk. These tools include:

- risk limits based on a summary measure of market risk exposure referred to as Value-at-Risk (VaR);
- scenario analyses, stress tests and other analytical tools that measure the potential effects on our trading net revenues of various market events, including, but not limited to, a large widening of credit spreads, a substantial decline in equity markets and significant moves in selected emerging markets; and
- inventory position limits for selected business units.

See Quantitative and Qualitative Disclosures About Market Risk in Part II, Item 7A of the Annual Report on Form 10-K for a description of our risk management policies and procedures.

VaR

VaR is the potential loss in value of Goldman Sachs trading positions due to adverse market movements over a defined time horizon with a specified confidence level.

For the VaR numbers reported below, a one-day time horizon and a 95% confidence level were used. This means that there is a 1 in 20 chance that daily trading net revenues will fall below the expected daily trading net revenues by an amount at least as large as the reported VaR. Thus, shortfalls from expected trading net revenues on a single trading day greater than the reported VaR would be anticipated to occur, on average, about once a month. Shortfalls on a single day can exceed reported VaR by significant amounts. Shortfalls can also accumulate over a longer time horizon such as a number of consecutive trading days.

The modeling of the risk characteristics of our trading positions involves a number of assumptions and approximations. While management believes that these assumptions and approximations are reasonable, there is no standard methodology for estimating VaR, and different assumptions and/or approximations could produce materially different VaR estimates.

We use historical data to estimate our VaR and, to better reflect current asset volatilities, we generally weight historical data to give greater importance to more recent observations. Given its reliance on historical data, VaR is most effective in estimating risk exposures in markets in which there are no sudden fundamental changes or shifts in market conditions. An inherent limitation of VaR is that the distribution of past changes in market risk factors may not produce accurate predictions of future market risk. Different VaR methodologies and distributional assumptions could produce a materially different VaR. Moreover, VaR calculated for a one-day time horizon does not fully capture the market risk of positions that cannot be liquidated or offset with hedges within one day. Changes in VaR between reporting periods are generally due to changes in levels of exposure, volatilities and/or correlations among asset classes.

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The following table sets forth the daily VaR:

Daily VaR [1]
(in millions)

Risk Categories	Average for the Three Months Ended February 2006	Average for the Three Months Ended February 2005	As of February 2006	As of November 2005	Three Months Ended February 2006 High	Three Months Ended February 2006 Low
Interest rates	$ 40	$ 32	$ 44	$ 45	$ 46	$ 35
Equity prices	69	29	85	54	85	55
Currency rates	18	15	30	10	30	9
Commodity prices	30	28	29	18	49	17
Diversification effect [2]	(65)	(39)	(77)	(44)		
Total	$ 92	$ 65	$ 111	$ 83	117	73

(1) During the first quarter of 2006, we excluded from our calculation certain equity positions generally due to their transfer restrictions or illiquidity. The effect of excluding these positions was not material to prior periods and, accordingly, such periods have not been adjusted. For a further discussion of the market risk associated with these positions, see Equity Positions below.

(2) Equals the difference between total VaR and the sum of the VaRs for the four risk categories. This effect arises because the four market risk categories are not perfectly correlated.

Our average daily VaR increased to $92 million for the first quarter of 2006 from $65 million in the same period last year. The increase was primarily due to higher levels of exposure to equity prices and interest rates.

The following chart presents our daily VaR during the last four quarters:

Daily VaR
($ in millions)

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Trading Net Revenues Distribution

Substantially all of our inventory positions are marked-to-market on a daily basis and changes are recorded in net revenues. The following chart sets forth the frequency distribution of our daily trading net revenues for substantially all inventory positions included in VaR for the quarter ended February 2006:

Daily Trading Net Revenues

($ in millions)

As part of our overall risk control process, daily trading net revenues are compared with VaR calculated as of the end of the prior business day. Trading losses incurred on a single day did not exceed our 95% one-day VaR during the first quarter of 2006.

Other Trading Risk

The market risk for certain debt and equity positions held in our trading businesses that are not included in VaR generally due to transfer restrictions and/or illiquidity is described below:

Debt Positions. The market risk for debt positions primarily held in our credit products business that are not included in VaR is measured using a sensitivity analysis that estimates the potential reduction in our net revenues associated with a 10% decline in the asset value of such positions. The market values of the underlying positions are sensitive to changes in a number of factors, including discount rates and the projected timing and amount of future cash flows. As of February 2006, the sensitivity to a 10% decline in the asset value of these positions was $658 million compared with $669 million as of November 2005.

Equity Positions. The market risk for equity positions that are not included in VaR is measured using a sensitivity analysis that estimates the potential reduction in our net revenues associated with a 10% decline in equity markets. This sensitivity analysis is based on certain assumptions regarding the relationship between changes in stock price indices and changes in the fair value of the individual equity positions. Different assumptions could produce materially different risk estimates. As of February 2006, the sensitivity to a 10% equity market decline was $221 million.

Nontrading Risk

SMFG. The market risk of our investment in the convertible preferred stock of SMFG, net of the economic hedge on the unrestricted shares of common stock underlying a portion of our investment, is measured using a sensitivity analysis that estimates the potential reduction in our net revenues associated with a 10% decline in the SMFG common stock price. As of February 2006, the sensitivity of our investment to a 10% decline in the SMFG common stock price was $313 million compared with $262 million as of November 2005. The change is primarily due to an increase in the SMFG common stock price and, to a lesser extent, the impact of the passage of time in respect of the transfer restrictions on the underlying common stock. This sensitivity should not be extrapolated to other movements in the SMFG common stock price, as the relationship between the fair value of our investment and the SMFG common stock price is nonlinear.

Other Principal Investments. The market risk for financial instruments in our nontrading portfolio, including our merchant banking investments but excluding our investment in the convertible preferred stock of SMFG, is measured using a sensitivity analysis that estimates the potential reduction in our net revenues associated with a 10% decline in equity markets. This sensitivity analysis is based on certain assumptions regarding the relationship between changes in stock price indices and changes in the fair value of the individual financial instruments in our nontrading portfolio. Different assumptions could produce materially different risk estimates. As of February 2006, the sensitivity of our nontrading portfolio (excluding our investment in the convertible preferred stock of SMFG) to a 10% equity market decline was $209 million compared with $181 million as of November 2005, primarily reflecting new private and public investments.

Derivatives

Derivative contracts are instruments, such as futures, forwards, swaps or option contracts, that derive their value from underlying assets, indices, reference rates or a combination of these factors. Derivative instruments may be privately negotiated contracts, which are often referred to as OTC derivatives, or they may be listed and traded on an exchange.

Substantially all of our derivative transactions are entered into for trading purposes, to facilitate client transactions, to take proprietary positions or as a means of risk management. In addition to derivative transactions entered into for trading purposes, we enter into derivative contracts to hedge our net investment in non-U.S. operations and to manage the interest rate and currency exposure on our long-term borrowings and certain short-term borrowings.

Derivatives are used in many of our businesses, and we believe that the associated market risk can only be understood relative to all of the underlying assets or risks being hedged, or as part of a broader trading strategy. Accordingly, the market risk of derivative positions is managed together with our nonderivative positions.

Fair values of our derivative contracts are reflected net of cash paid or received pursuant to credit support agreements and are reported on a net-by-counterparty basis in our condensed consolidated statements of financial condition when management believes a legal right of setoff exists under an enforceable netting agreement. For an OTC derivative, our credit exposure is directly with our counterparty and continues until the maturity or termination of such contract.

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The following table sets forth the distribution, by credit rating, of substantially all of our exposure with respect to OTC derivatives as of February 2006, after taking into consideration the effect of netting agreements. The categories shown reflect our internally determined public rating agency equivalents.

Over-the-Counter Derivative Credit Exposure
($ in millions)

Credit Rating Equivalent	Exposure (1)	Collateral Held	Exposure Net of Collateral	Percentage of Total Exposure Net of Collateral
AAA/Aaa	$ 4,010	$ 445	$ 3,565	11%
AA/Aa2	9,855	1,935	7,920	24
A/A2	11,535	2,513	9,022	27
BBB/Baa2	10,401	2,868	7,533	23
BB/Ba2 or lower	8,398	3,850	4,548	14
Unrated	950	596	354	1
Total	$ 45,149	$ 12,207	$ 32,942	100%

(1) Net of cash received pursuant to credit support agreements of $23.69 billion.

The following tables set forth our OTC derivative credit exposure, net of collateral, by remaining contractual maturity:

Exposure Net of Collateral
(in millions)

Credit Rating Equivalent	0 - 6 Months	6 - 12 Months	1 - 5 Years	5 - 10 Years	10 Years or Greater	Total (1)
AAA/Aaa	$ 420	$ 99	$ 1,454	$ 745	$ 847	$ 3,565
AA/Aa2	1,519	700	2,027	2,328	1,346	7,920
A/A2	2,011	1,227	3,179	1,459	1,146	9,022
BBB/Baa2	1,489	1,179	2,722	413	1,730	7,533
BB/Ba2 or lower	701	762	1,863	639	583	4,548
Unrated	64	60	210	1	19	354
Total	$ 6,204	$ 4,027	$ 11,455	$ 5,585	$ 5,671	$ 32,942

Contract Type	0 - 6 Months	6 - 12 Months	1 - 5 Years	5 - 10 Years	10 Years or Greater	Total (1)

Interest rates	$ 799	$ 315	$ 3,505	$ 3,516	$ 4,299	$ 12,434
Currencies	2,420	377	2,040	777	1,067	6,681
Commodities	2,250	2,862	5,256	612	169	11,149
Equities	735	473	654	680	136	2,678
Total	$ 6,204	$ 4,027	$ 11,455	$ 5,585	$ 5,671	$ 32,942

(1) Where we have obtained collateral from a counterparty under a master trading agreement that covers multiple products and transactions, we have allocated the collateral ratably based on exposure before giving effect to such collateral.

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Derivative transactions may also involve legal risks including the risk that they are not authorized or appropriate for a counterparty, that documentation has not been properly executed or that executed agreements may not be enforceable against the counterparty. We attempt to minimize these risks by obtaining advice of counsel on the enforceability of agreements as well as on the authority of a counterparty to effect the derivative transaction. In addition, certain derivative transactions involve the risk that we may have difficulty obtaining, or be unable to obtain, the underlying security or obligation in order to satisfy any physical settlement requirement or that the derivative may have been assigned to a different counterparty without our knowledge or consent.

Item 4: Controls and Procedures

As of the end of the period covered by this report, an evaluation was carried out by Goldman Sachs management, with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that these disclosure controls and procedures were effective as of the end of the period covered by this report. In addition, no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) occurred during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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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 for the fiscal year ended November 25, 2005.

IPO Process Matters

In the lawsuit alleging an antitrust conspiracy to tie allocations in certain offerings to higher customer brokerage commission rates as well as purchase orders in the aftermarket, on March 8, 2006 the underwriter defendants filed a petition for *certiorari* with the U.S. Supreme Court seeking review of the decision of the U.S. Court of Appeals for the Second Circuit which reversed the federal district court s dismissal of the action.

In the lawsuit brought by an official committee of unsecured creditors on behalf of eToys, Inc., by a decision dated March 21, 2006, the trial court denied Goldman, Sachs & Co. s motion to dismiss the two remaining claims.

Stock Options Litigation

By an order dated February 8, 2006, the federal district court entered an order that, among other things, preliminarily approved the proposed settlement by certain market makers, including Hull Trading Co. L.L.C. and Spear, Leeds & Kellogg, L.P. (now known as Goldman Sachs Execution & Clearing, L.P.), and scheduled a final hearing on the proposed settlement for May 22, 2006.

Mutual Fund Matters

In the putative consolidated class and derivative actions brought by purported shareholders of certain Goldman Sachs mutual funds, on February 22, 2006, plaintiffs appealed from the dismissal of the actions.

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Item 2: Unregistered Sales of Equity Securities and Use of Proceeds

The table below sets forth the information with respect to purchases made by or on behalf of The Goldman Sachs Group, Inc. or any affiliated purchaser (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934) of our common stock during the three months ended February 24, 2006.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (3)	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs (3)
Month #1 (November 26, 2005 to December 30, 2005) (1)	2,577,110 (2)	$127.60	2,487,200	40,226,179
Month #2 (December 31, 2005 to January 27, 2006)	10,088,200	$132.34	10,088,200	30,137,979
Month #3 (January 28, 2006 to February 24, 2006) (1)	6,464,400	$141.36	6,464,400	23,673,579
Total (1)	19,129,710	$134.75	19,039,800	

(1) Goldman Sachs generally does not repurchase shares of its common stock as part of the repurchase program during self-imposed black-out periods, which run from the last two weeks of a fiscal quarter through the date of the earnings release for such quarter.

(2) Includes 89,910 shares withheld to satisfy employee income taxes on equity-based awards granted during the period.

(3) On March 21, 2000, we announced that our board of directors had approved a repurchase program, pursuant to which up to 15 million shares of our common stock may be repurchased. This repurchase program was increased by an aggregate of 160 million shares by resolutions of our board of directors adopted on June 18, 2001, March 18, 2002, November 20, 2002, January 30, 2004, January 25, 2005 and September 16, 2005. The repurchase program is intended to maintain our total shareholders equity at appropriate levels and to substantially offset increases in share count over time resulting from employee share-based compensation. The repurchase program has been effected primarily through regular open-market purchases and is influenced by, among other factors, the level of our common shareholders equity, our overall capital position, share-based awards and exercises of employee stock options, the prevailing market price of our common stock and general market conditions. The total remaining authorization under the repurchase program was 21,681,579 shares as

of March 24, 2006; the repurchase program has no set expiration or termination date.

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Item 4: Submission of Matters to a Vote of Security Holders

On March 31, 2006, Group Inc. held its Annual Meeting of Shareholders at which the shareholders voted upon (i) the re-election of Lloyd C. Blankfein, Lord Browne of Madingley, John H. Bryan, Claes Dahlbäck, Stephen Friedman, William W. George, James A. Johnson, Lois D. Juliber, Edward M. Liddy, Henry M. Paulson, Jr. and Ruth J. Simmons to the Board of Directors for one-year terms, (ii) the approval of an amendment to The Goldman Sachs Restricted Partner Compensation Plan, (iii) the ratification of the appointment of PricewaterhouseCoopers LLP as Group Inc. s independent auditors for the 2006 fiscal year, and (iv) a shareholder proposal that the Board of Directors prepare a conflict-of-interest report on Goldman Sachs environmental policy and the donation of certain land in Tierra del Fuego.

The shareholders re-elected all eleven directors and approved the amendment to The Goldman Sachs Restricted Partner Compensation Plan and the ratification of the appointment of PricewaterhouseCoopers LLP as Group Inc. s independent auditors for the 2006 fiscal year. The shareholder proposal did not receive the approval of a majority of the outstanding shares of our common stock; as a result, in accordance with our By-Laws, the shareholder proposal was not approved. The number of votes cast for, against or withheld and the number of abstentions and broker non-votes with respect to each matter voted upon, as applicable, is set forth below.

		For	Against/ Withheld	Abstain	Broker Non-Votes
1.	Election of Directors:				
	Lloyd C. Blankfein	384,018,093	5,937,472	*	*
	Lord Browne of Madingley	367,799,962	22,155,603	*	*
	John H. Bryan	366,537,119	23,418,446	*	*
	Claes Dahlbäck	367,161,586	22,793,979	*	*
	Stephen Friedman	361,601,321	28,354,244	*	*
	William W. George	369,266,555	20,689,010	*	*
	James A. Johnson	362,714,564	27,241,001	*	*
	Lois D. Juliber	369,450,114	20,505,451	*	*
	Edward M. Liddy	368,619,758	21,335,807	*	*
	Henry M. Paulson, Jr.	381,369,589	8,585,976	*	*
	Ruth J. Simmons	369,387,904	20,567,661	*	*
2.	Approval of an Amendment to The Goldman Sachs Restricted Partner Compensation Plan	286,154,786	26,631,809	2,803,595	74,365,375
3.	Ratification of the Appointment of Independent Auditors	381,920,044	5,141,993	2,893,528	*
4.	Shareholder Proposal Regarding a Conflict-of-Interest Report	27	389,647,459	0	*

* Not applicable

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Item 6: Exhibits

Exhibits:

4.1	Warrant Indenture, dated as of February 14, 2006, between The Goldman Sachs Group, Inc. and The Bank of New York, as trustee (incorporated by reference to Exhibit 4.34 to The Goldman Sachs Group, Inc. s Post-Effective Amendment No. 3 to Form S-3, filed on March 1, 2006).
10.1	The Goldman Sachs Amended and Restated Restricted Partner Compensation Plan.
12.1	Statement re: computation of ratios of earnings to fixed charges.
15.1	Letter re: Unaudited Interim Financial Information.
31.1	Rule 13a-14(a) Certifications.
32.1	Section 1350 Certifications.

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SIGNATURES

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

THE GOLDMAN SACHS GROUP, INC.

By: /s/ David A. Viniar
Name: David A. Viniar
Title: Chief Financial Officer

By: /s/ Sarah E. Smith
Name: Sarah E. Smith
Title: Principal Accounting Officer

Date: April 4, 2006

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