

NYSE Euronext
Form 10-Q
August 05, 2011

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2011
OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM _____ TO _____.
COMMISSION FILE NUMBER 001-33392
NYSE Euronext
(Exact name of registrant as specified in its charter)**

**DELAWARE
(State or other jurisdiction of
incorporation or organization)**

**20-5110848
(I.R.S. Employer
Identification Number)**

**11 Wall Street
New York, New York 10005
(Address of principal executive offices) (Zip Code)
(212) 656-3000**

Registrant's Telephone Number, Including Area Code

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

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

As of August 4, 2011, the registrant had approximately 262 million shares of common stock, \$0.01 par value per share, outstanding.

CERTAIN TERMS

In this Quarterly Report on Form 10-Q, *NYSE Euronext*, *we*, *us*, and *our* refer to NYSE Euronext, a Delaware corporation, and its subsidiaries, except where the context requires otherwise.

Archipelago[®], *Archipelago Exchange*[®], *Euronext*[®], *NYSE*[®], *NYSE Bids*[™], *NYSE Life*[®], *Pacific Exchange*[®] and *SFTI*[®], among others, are trademarks or service marks of NYSE Euronext or its licensees or licensors with all rights reserved.

FINRA[®] is a trademark of the Financial Industry Regulatory Authority (*FINRA*) with all rights reserved, and is used under license from FINRA.

All other trademarks and service marks used herein are the property of their respective owners.

Unless otherwise specified or the context otherwise requires:

NYSE refers to (1) prior to the completion of the merger between the New York Stock Exchange, Inc. and Archipelago Holdings, Inc. (*Archipelago*), which occurred on March 7, 2006, New York Stock Exchange, Inc., a New York Type A not-for-profit corporation, and (2) after completion of the merger, New York Stock Exchange LLC, a New York limited liability company, and, where the context requires, its subsidiaries, NYSE Market, Inc., a Delaware corporation, and NYSE Regulation, Inc., a New York not-for-profit corporation. New York Stock Exchange LLC is registered with the U.S. Securities and Exchange Commission (the *SEC*) under the U.S. Securities Exchange Act of 1934, as amended (the *Exchange Act*) as a national securities exchange.

NYSE Arca refers collectively to NYSE Arca, L.L.C., a Delaware limited liability company (formerly known as Archipelago Exchange, L.L.C.), NYSE Arca, Inc., a Delaware corporation (formerly known as the Pacific Exchange, Inc.), and NYSE Arca Equities, Inc., a Delaware corporation (formerly known as PCX Equities, Inc.). NYSE Arca, Inc. is registered with the SEC under the Exchange Act as a national securities exchange.

NYSE Amex refers to NYSE Amex LLC, a Delaware limited liability company (formerly known as the American Stock Exchange LLC). NYSE Amex LLC is registered with the SEC under the Exchange Act as a national securities exchange.

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains statements that may constitute forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. In some cases, you can identify these statements by forward-looking words such as may, might, will, should, expect, plan, anticipate, estimate, predict, potential or continue, and the negative of these terms and other comparable terminology. These forward-looking statements, which are subject to known and unknown risks, uncertainties and assumptions about us, may include projections of our future financial performance based on our growth strategies and anticipated trends in our business and industry. These statements are only predictions based on our current expectations and projections about future events. There are important factors that could cause our actual results, level of activity, performance or achievements to differ materially from the results, level of activity, performance or achievements expressed or implied by the forward-looking statements. In particular, you should consider the risks and uncertainties described under Risk Factors in Part I, Item 1A of our Annual Report on Form 10-K filed for the year ended December 31, 2010, and any additional risks and uncertainties described in our subsequent Quarterly Reports on Form 10-Q.

These risks and uncertainties are not exhaustive. Other sections of this report describe additional factors that could adversely impact our business and financial performance. Moreover, we operate in a very competitive and rapidly changing environment. New risks and uncertainties emerge from time to time, and it is not possible to predict all risks and uncertainties, nor can we assess the impact that these factors will have on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

Although we believe the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, level of activity, performance or achievements. Moreover, neither we nor any other person assumes responsibility for the accuracy or completeness of any of these forward-looking statements. You should not rely upon forward-looking statements as predictions of future events. We are under no duty to update any of these forward-looking statements after the date of this report to conform our prior statements to actual results or revised expectations and we do not intend to do so.

Forward-looking statements include, but are not limited to, statements about:

- possible or assumed future results of operations and operating cash flows;

- strategies and investment policies;

- financing plans and the availability of capital;

- our competitive position and environment;

- potential growth opportunities available to us;

- the risks associated with potential acquisitions, alliances or combinations, including the proposed Deutsche Börse AG transaction described elsewhere in this Quarterly Report;

- the recruitment and retention of officers and employees;

- expected levels of compensation;

- potential operating performance, achievements, productivity improvements, efficiency and cost reduction efforts;

- the likelihood of success and impact of litigation;

- protection or enforcement of intellectual property rights;

expectations with respect to financial markets, industry trends and general economic conditions;

our ability to keep up with rapid technological change;

the timing and results of our technology initiatives;

the effects of competition; and

the impact of future legislation and regulatory changes.

We caution you not to place undue reliance on the forward-looking statements, which speak only as of the date of this report. We expressly qualify in their entirety all forward-looking statements attributable to us or any person acting on our behalf by the cautionary statements referred to above.

PART I FINANCIAL INFORMATION**Item 1. Financial Statements**

NYSE EURONEXT
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(In millions, except per share data)

(Unaudited)

	June 30, 2011	December 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	\$ 344	\$ 327
Financial investments	41	52
Accounts receivable, net	532	526
Deferred income taxes	74	120
Other current assets	212	149
Total current assets	1,203	1,174
Property and equipment, net	998	1,021
Goodwill	4,232	4,050
Other intangible assets, net	6,139	5,837
Deferred income taxes	582	633
Other assets	662	663
Total assets	\$ 13,816	\$ 13,378
Liabilities and equity		
Current liabilities:		
Accounts payable and accrued expenses	\$ 609	\$ 772
Related party payable	40	40
Section 31 fees payable	172	98
Deferred revenue	346	176
Short term debt		366
Deferred income taxes	24	2
Total current liabilities	1,191	1,454
Long term debt	2,189	2,074
Deferred income taxes	2,033	2,007
Accrued employee benefits	453	499
Deferred revenue	387	366
Related party payable	36	75
Other liabilities	27	59
Total liabilities	6,316	6,534
Commitments and contingencies		
Redeemable noncontrolling interest	272	

Equity

NYSE Euronext stockholders' equity:

Common stock, \$0.01 par value, 800 shares authorized; 277 and 276 shares issued; 262 and 261 shares outstanding	3	3
Common stock held in treasury, at cost; 15 shares	(416)	(416)
Additional paid-in capital	7,999	8,180
Retained earnings	364	212
Accumulated other comprehensive loss	(792)	(1,183)
Total NYSE Euronext stockholders' equity	7,158	6,796
Noncontrolling interest	70	48
Total equity	7,228	6,844
Total liabilities and equity	\$ 13,816	\$ 13,378

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

NYSE EURONEXT
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions, except per share data)

(Unaudited)

	Three months ended		Six months ended	
	June 30,		June 30,	
	2011	2010	2011	2010
Revenues				
Transaction and clearing fees	\$ 742	\$ 927	\$ 1,557	\$ 1,689
Market data	92	93	188	184
Listing	112	105	221	210
Technology services	89	75	171	154
Other revenues	57	47	103	93
Total revenues	1,092	1,247	2,240	2,330
Transaction-based expenses:				
Section 31 fees	89	99	178	162
Liquidity payments, routing and clearing	342	494	722	869
Total revenues, less transaction-based expenses	661	654	1,340	1,299
Other operating expenses:				
Compensation	158	160	319	332
Depreciation and amortization	70	66	140	132
Systems and communications	45	47	97	99
Professional services	73	66	142	124
Selling, general and administrative	73	68	136	147
Merger expenses and exit costs	18	32	39	45
Total other operating expenses	437	439	873	879
Operating income	224	215	467	420
Interest expense	(31)	(26)	(61)	(53)
Investment income	1	1	2	1
Loss from associates	(2)	(1)	(3)	(3)
Other income	1	56	1	53
Income before income taxes	193	245	406	418
Income tax provision	(43)	(66)	(105)	(114)
Net income	150	179	301	304
Net loss attributable to noncontrolling interest	4	5	8	10
Net income attributable to NYSE Euronext	\$ 154	\$ 184	\$ 309	\$ 314
Basic earnings per share attributable to NYSE Euronext	\$ 0.59	\$ 0.70	\$ 1.18	\$ 1.20

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Diluted earnings per share attributable to NYSE Euronext \$ 0.59 \$ 0.70 \$ 1.17 \$ 1.20

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

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NYSE EURONEXT
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

(Unaudited)

	Six months ended June 30,	
	2011	2010
Cash flows from operating activities:		
Net income	\$ 301	\$ 304
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	143	143
Deferred income taxes	(4)	16
Deferred revenue amortization	(48)	(44)
Stock-based compensation	20	20
Other non-cash items	9	(53)
Change in operating assets and liabilities:		
Accounts receivable, net	56	(98)
Other assets	(64)	(53)
Accounts payable, accrued expenses, and Section 31 fees payable	(38)	(40)
Related party payable	(40)	10
Deferred revenue	203	200
Accrued employee benefits	(48)	(12)
Net cash provided by operating activities	490	393
Cash flows from investing activities:		
Sales of investments	414	299
Purchases of investments	(402)	(282)
Purchases of equity investments and businesses, net of cash acquired	(8)	
Sale of equity investments at cost		175
Net proceeds from disposition of asset held-for-sale	34	
Purchases of property and equipment	(67)	(162)
Other investing activities	27	
Net cash (used in) provided by investing activities	(2)	30
Cash flows from financing activities:		
Commercial paper (repayments) borrowings, net	(343)	(249)
Dividends to shareholders	(157)	(156)
Other	(6)	(1)
Net cash used in financing activities	(506)	(406)
Effects of exchange rate changes on cash and cash equivalents	35	(71)
Net increase (decrease) in cash and cash equivalents for the period	17	(54)
Cash and cash equivalents at beginning of period	327	423

Cash and cash equivalents at end of period	\$ 344	\$ 369
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Non-cash investing and financing activities:

Acquisition of APX	\$ 40	\$
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Issuance of shares in connection with the sale of the American Stock Exchange building	\$ 12	\$
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The accompanying notes are an integral part of these condensed consolidated financial statements.

NYSE EURONEXT

Notes to Condensed Consolidated Financial Statements

Note 1 Organization and Basis of Presentation

Organization

NYSE Euronext is a holding company that, through its subsidiaries, operates the following securities exchanges: the New York Stock Exchange (NYSE), NYSE Arca, Inc. (NYSE Arca) and NYSE Amex LLC (NYSE Amex) in the United States and the five European-based exchanges that comprise Euronext N.V. (Euronext) the Paris, Amsterdam, Brussels and Lisbon stock exchanges, as well as the derivatives markets in London, Paris, Amsterdam, Brussels and Lisbon (collectively, NYSE Liffe) and the United States futures market, NYSE Liffe US LLC (NYSE Liffe US). NYSE Euronext is a global provider of securities listing, trading, market data products, and software and technology services. NYSE Euronext was formed in connection with the April 4, 2007 combination of NYSE Group (which was formed in connection with the March 7, 2006 merger of the NYSE and Archipelago) and Euronext. NYSE Euronext common stock is dually listed on the NYSE and Euronext Paris under the symbol NYX.

Basis of Presentation

The accompanying condensed unaudited consolidated financial statements include the accounts of NYSE Euronext and its subsidiaries.

The accompanying condensed unaudited consolidated financial statements are prepared in accordance with accounting principles generally accepted in the U.S. (U.S. GAAP) and reflect all adjustments, consisting of normal recurring adjustments, that are, in the opinion of management, necessary for a fair statement of the results for the period. All material intercompany accounts and transactions have been eliminated in consolidation. Certain information and footnote disclosures normally required in financial statements under U.S. GAAP have been condensed or omitted; however, management believes that the disclosures are adequate to make the information presented not misleading. The preparation of these condensed unaudited consolidated financial statements, in conformity with U.S. GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could be materially different from these estimates. Certain prior period amounts have been reclassified to conform to the current period's presentation.

The condensed consolidated financial statements are unaudited and should be read in conjunction with the audited financial statements of NYSE Euronext as of and for the year ended December 31, 2010. Operating results for the three and six months ended June 30, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011.

Note 2 Strategic Investments and Divestitures

Proposed Business Combination

On February 15, 2011, we announced that we entered into a business combination agreement with Deutsche Börse AG (Deutsche Börse). Under the agreement, the companies will combine (the Combined Company) to create the world's premier global exchange group. Each of the group's national exchanges will keep its name in its local market and all exchanges will continue to operate under local regulatory frameworks and supervision. Following full completion of the contemplated transactions, the former Deutsche Börse shareholders would own approximately 60% of the Combined Company and the former NYSE Euronext shareholders would own approximately 40% of the Combined Company on a fully diluted basis and assuming that all Deutsche Börse shares are tendered in the contemplated exchange offer. The transaction is subject to approval by the relevant competition and financial, securities and other regulatory authorities in the United States and Europe, and other customary closing conditions, and we can provide no assurance that such approvals and conditions will be obtained or satisfied.

On July 7, 2011, NYSE Euronext shareholders approved the adoption of the business combination agreement with Deutsche Börse and related proposals, and on August 2, 2011, Deutsche Börse successfully completed its tender offer, surpassing the requisite 75% needed to approve the proposed combination. Subject to satisfaction of the previously mentioned approvals and conditions, the transaction is expected to close at the end of 2011.

NYSE Amex Options

On June 29, 2011, NYSE Euronext completed the sale of a significant equity interest in NYSE Amex Options, one of our two U.S. options exchanges, to seven external investors, Bank of America Merrill Lynch, Barclays Capital, Citadel Securities, Citi, Goldman Sachs, TD AMERITRADE and UBS. NYSE Euronext remains the largest shareholder in the entity and manages the day-to-day operations of NYSE Amex Options, which operates under the supervision of a separate board of directors and a dedicated chief executive officer. NYSE Euronext consolidates this entity for financial reporting purposes.

As part of the agreement, the external investors have received an equity instrument which is tied to their individual contribution to the options exchange's success. Under the terms of the agreement, the external investors have the option to require NYSE Euronext to repurchase a portion of the instruments on an annual basis over the course of five years starting in 2011. The amount NYSE Euronext is required to purchase under this arrangement is capped each year at between 5% and 15% of the total outstanding shares of NYSE Amex Options. NYSE Euronext recognized the full redemption value, i.e. fair value, of this instrument as mezzanine equity and classified the related balance as

Redeemable noncontrolling interest in the condensed consolidated statement of financial condition as of June 30, 2011.

NYSE Blue™

On February 18, 2011, the formation of the NYSE Blue joint venture was consummated. NYSE Blue is a new global company that is majority owned by NYSE Euronext. NYSE Blue consists of the businesses of APX (headquartered in the New York City region) and BlueNext (headquartered in Paris). In its environmental unit, NYSE Blue provides infrastructure and services to environmental sponsors and market participants, through its environmental management account for asset and risk management as well as its registry services for renewable energy in the United States and voluntary carbon credits worldwide. Additionally, NYSE Blue operates, through BlueNext, a leading spot exchange for the European Emissions Trading System, a multi-country, multi-sector greenhouse gas emission trading scheme. In its power unit, NYSE Blue is a leading provider of hosted power scheduling and settlement services for wholesale power market participants. NYSE Euronext consolidates the results of operations and financial condition of NYSE Blue.

New York Portfolio Clearing (NYPC)

NYPC, NYSE Euronext's joint venture with The Depository Trust & Clearing Corporation (DTCC), became operational in the first quarter of 2011. NYPC will initially clear fixed income derivatives traded on NYSE Liffe US and will have the ability to provide clearing services for other exchanges and Derivatives Clearing Organizations in the future. NYPC uses NYSE Euronext's clearing technology, TRS/CPS, to process and manage cleared positions and post-trade position transfers. DTCC's Fixed Income Clearing Corporation provides capabilities in risk management, settlement, banking and reference data systems. As of June 30, 2011, NYSE Euronext had a minority ownership interest in, and board representation on, DTCC. NYSE Euronext has agreed to make a \$50 million financial guarantee as an additional contribution to the NYPC default fund, of which \$25 million had been contributed as of June 30, 2011 and is held in escrow by NYPC. NYSE Euronext's investment in NYPC is treated as an equity method investment.

Sale of American Stock Exchange building (Amex building)

In the first quarter of 2011, the Amex building was sold and, in accordance with the Amex acquisition agreement, approximately 340,000 NYSE Euronext shares of common stock were issued to former Amex members in June 2011.

Note 3 Restructuring

Severance Costs

As a result of streamlining certain business processes, NYSE Euronext has launched various voluntary and involuntary severance plans in the U.S. and Europe. The following is a summary of the severance charges recognized in connection with these plans, utilization of the accrual through June 30, 2011, and the remaining accrual as of June 30, 2011 (in millions):

	Derivatives	Cash Trading and Listings	Information Services and Technology Solutions	Corporate/ Eliminations	Total
Balance as of December 31, 2010	\$ 1	\$ 30	\$ 5	\$ 2	\$ 38
Employee severance and related benefits		2	1		3
Severance and benefit payments	(1)	(17)	(3)	(1)	(22)

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Currency translation and other			1					1
Balance as of June 30, 2011	\$	\$	16	\$	3	\$	1	\$ 20

The severance charges are included in merger expenses and exit costs in the condensed consolidated statements of operations. Based on current severance dates and the accrued severance at June 30, 2011, NYSE Euronext expects to pay these amounts throughout 2011 and into 2012.

Note 4 Segment Reporting

NYSE Euronext operates under three reportable segments: Derivatives, Cash Trading and Listings, and Information Services and Technology Solutions. We evaluate the performance of our operating segments based on revenue and operating income. We have aggregated all of our corporate costs, including the costs to operate as a public company, within Corporate/ Eliminations.

The following is a description of our reportable segments:

Derivatives consist of the following in NYSE Euronext's global businesses:

providing access to trade execution in derivatives products, options and futures;

providing certain clearing services for derivatives products; and

selling and distributing market data and related information.

Cash Trading and Listings consist of the following in NYSE Euronext's global businesses:

providing access to trade execution in cash trading and settlement of transactions in certain European markets;

obtaining new listings and servicing existing listings;

selling and distributing market data and related information; and

providing regulatory services.

Information Services and Technology Solutions consist of the following in NYSE Euronext's global businesses:

operating sellside and buy-side connectivity networks for our markets and for other major market centers and market participants in the United States, Europe and Asia;

providing trading and information technology software and solutions;

selling and distributing market data and related information to data subscribers for proprietary data products; and

providing multi-asset managed services and expert consultancy to exchanges and liquidity centers.

Summarized financial data of our reportable segments is as follows (in millions):

		Cash Trading and Listings	Information Services and Technology Solutions	Corporate/ Eliminations	Total
Three months ended June 30, 2011	Derivatives				
Revenues	\$ 276	\$ 695	\$ 122	\$ (1)	\$ 1,092
Operating income (loss)	111	126	35	(48)	224
2010					
Revenues	\$ 305	\$ 835	\$ 107	\$	\$ 1,247
Operating income (loss)	135	107	12	(39)	215
		Cash Trading and Listings	Information Services and Technology Solutions	Corporate/ Eliminations	Total
Six months ended June 30, 2011	Derivatives				
Revenues	\$ 583	\$ 1,421	\$ 238	\$ (2)	\$ 2,240
Operating income (loss)	256	248	62	(99)	467

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2010

Revenues	\$ 603	\$ 1,511	\$ 217	\$ (1)	\$2,330
Operating income (loss)	262	206	27	(75)	420
		9			

Note 5 Earnings and Dividend Per Share

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

	Three months ended June		Six months ended June	
	2011	2010	2011	2010
Net income	\$ 150	\$ 179	\$ 301	\$ 304
Net loss attributable to noncontrolling interest	4	5	8	10
Net income attributable to NYSE Euronext	\$ 154	\$ 184	\$ 309	\$ 314
Shares of common stock and common stock equivalents: Weighted average shares used in basic computation	262	261	262	261
Dilutive effect of: Employee stock options and restricted stock units	1		1	