MARKETAXESS HOLDINGS INC
Form 10-Q
July 26, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2013

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 001-34091

MARKETAXESS HOLDINGS INC.

(Exact name of registrant as specified in its charter)

Delaware	**52-2230784**
(State or other jurisdiction of	**(IRS Employer**
incorporation or organization)	**Identification No.)**
299 Park Avenue, 10th Floor New York, New York	**10171**
(Address of principal executive offices)	**(Zip Code)**

(212) 813-6000

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant 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 x 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 definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

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

As of July 25, 2013, the number of shares of the Registrant s voting common stock outstanding was 37,561,966.

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FORM 10-Q FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2013

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PART I Financial Information

Item 1. ***Financial Statements***

MARKETAXESS HOLDINGS INC.

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(Unaudited)

	As of June 30, 2013	As of December 31, 2012
	(In thousands, except share and per share amounts)	
ASSETS		
Cash and cash equivalents	$ 135,468	$ 128,908
Securities available-for-sale, at fair value	14,479	51,208
Accounts receivable, net of allowance of $131 and $75 as of June 30, 2013 and December 31, 2012, respectively	41,826	31,044
Goodwill and intangible assets, net of accumulated amortization	71,447	33,134
Furniture, equipment, leasehold improvements and capitalized software, net of accumulated depreciation and amortization	26,443	18,009
Prepaid expenses and other assets	11,204	8,096
Deferred tax assets, net	4,511	9,442
Total assets	$ 305,378	$ 279,841
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities		
Accrued employee compensation	$ 12,509	$ 19,916
Deferred revenue	5,437	4,864
Accounts payable, accrued expenses and other liabilities	16,868	12,344
Total liabilities	34,814	37,124
Commitments and Contingencies (Note 11)		
Stockholders equity		
Preferred stock, $0.001 par value, 4,855,000 shares authorized, no shares issued and outstanding as of June 30, 2013 and December 31, 2012		
Series A Preferred Stock, $0.001 par value, 110,000 shares authorized, no shares issued and outstanding as of June 30, 2013 and December 31, 2012		
Common stock voting, $0.003 par value, 110,000,000 shares authorized, 39,057,125 shares and 38,902,294 shares issued and 37,561,966 shares and 37,407,135 shares outstanding as of June 30, 2013 and December 31, 2012, respectively	119	118
Common stock non-voting, $0.003 par value, 10,000,000 shares authorized, no shares issued and outstanding as of June 30, 2013 and December 31, 2012		
Additional paid-in capital	286,816	283,609
Treasury stock Common stock voting, at cost, 1,495,159 shares as of June 30, 2013 and December 31, 2012	(32,273)	(32,273)
Retained earnings (deficit)	19,467	(5,644)
Accumulated other comprehensive loss	(3,565)	(3,093)
Total stockholders equity	270,564	242,717

Total liabilities and stockholders equity	$ 305,378	$ 279,841

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

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MARKETAXESS HOLDINGS INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(In thousands, except per share amounts)			
Revenues				
Commissions	$ 54,198	$ 42,690	$ 101,384	$ 87,592
Information and post-trade services	7,192	1,790	10,895	3,661
Technology products and services	3,537	3,220	6,676	6,128
Investment income	44	268	176	571
Other	588	857	1,985	1,608
Total revenues	65,559	48,825	121,116	99,560
Expenses				
Employee compensation and benefits	15,927	15,305	32,280	31,146
Depreciation and amortization	4,504	1,961	7,073	3,815
Technology and communications	4,099	3,015	7,290	5,970
Professional and consulting fees	4,726	2,837	9,327	5,861
Occupancy	1,287	757	2,219	1,516
Marketing and advertising	1,432	1,732	2,417	3,179
General and administrative	2,073	2,018	4,686	4,125
Total expenses	34,048	27,625	65,292	55,612
Income before income taxes	31,511	21,200	55,824	43,948
Provision for income taxes	12,168	8,571	21,155	17,826
Net income	$ 19,343	$ 12,629	$ 34,669	$ 26,122
Net income per common share				
Basic	$ 0.52	$ 0.35	$ 0.94	$ 0.72
Diluted	$ 0.51	$ 0.34	$ 0.92	$ 0.69
Cash dividends declared per common share	$ 0.13	$ 0.11	$ 0.26	$ 0.22
Weighted average common shares				
Basic	36,868	36,128	36,821	36,531
Diluted	37,819	37,440	37,746	38,067

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

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MARKETAXESS HOLDINGS INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(In thousands)			
Net income	$ 19,343	$ 12,629	$ 34,669	$ 26,122
Cumulative translation adjustment and foreign currency exchange hedge, net of tax	(73)	(148)	43	(280)
Unrealized net loss on securities available-for-sale, net of tax	(9)	(56)	(515)	(255)
Comprehensive Income	$ 19,261	$ 12,425	$ 34,197	$ 25,587

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

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MARKETAXESS HOLDINGS INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

(Unaudited)

	Common Stock Voting	Additional Paid-In Capital	Treasury Stock - Common Stock Voting	Retained (Deficit) Earnings	Accumulated Other Comprehen-sive Loss	Total Stockholders Equity
			(In thousands)			
Balance at December 31, 2012	$ 118	$ 283,609	$ (32,273)	$ (5,644)	$ (3,093)	$ 242,717
Net income				34,669		34,669
Cumulative translation adjustment and foreign currency exchange hedge, net of tax					43	43
Unrealized net (loss) on securities available-for-sale, net of tax					(515)	(515)
Stock-based compensation		4,178				4,178
Exercise of stock options	1	1,379				1,380
Withholding tax payments on restricted stock vesting and stock option exercises		(5,001)				(5,001)
Excess tax benefits from stock-based compensation		2,651				2,651
Cash dividend on common stock				(9,558)		(9,558)
Balance at June 30, 2013	$ 119	$ 286,816	$ (32,273)	$ 19,467	$ (3,565)	$ 270,564

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

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MARKETAXESS HOLDINGS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
	(In thousands)	
Cash flows from operating activities		
Net income	$ 34,669	$ 26,122
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,746	3,815
Stock-based compensation expense	4,178	4,028
Deferred taxes	2,262	2,619
Non-cash out-of-period adjustment	(972)	
Provision for bad debts	183	446
Other	(155)	471
Changes in operating assets and liabilities		
(Increase) decrease in accounts receivable	(7,427)	2,515
(Decrease) in prepaid expenses and other assets	(2,206)	(5,241)
(Decrease) in accrued employee compensation	(8,066)	(8,922)
(Decrease) in deferred revenue	(1,002)	(200)
Increase in accounts payable, accrued expenses and other liabilities	3,039	242
Net cash provided by operating activities	30,249	25,895
Cash flows from investing activities		
Acquisition of business, net of cash acquired	(37,827)	
Securities available-for-sale:		
Proceeds from sales	30,900	13,577
Proceeds from maturities	5,185	11,423
Purchases		(6,376)
Purchases of furniture, equipment and leasehold improvements	(7,416)	(1,044)
Capitalization of software development costs	(3,284)	(2,558)
Other	63	(9)
Net cash (used in) provided by investing activities	(12,379)	15,013
Cash flows from financing activities		
Cash dividend on common stock	(10,258)	(8,282)
Exercise of stock options	1,380	5,428
Withholding tax payments on restricted stock vesting and stock option exercises	(5,001)	(20,003)
Excess tax benefits from stock-based compensation	2,651	13,681
Repurchase of common stock		(71,143)
Other	(158)	(146)
Net cash (used in) financing activities	(11,386)	(80,465)
Effect of exchange rate changes on cash and cash equivalents	76	(468)
Cash and cash equivalents		
Net increase (decrease) for the period	6,560	(40,025)

Beginning of year	128,908	169,620
End of period	$ 135,468	$ 129,595
Supplemental cash flow information		
Cash paid during the period:		
Cash paid for income taxes	$ 12,612	$ 6,936
Non-cash investing and financing activity:		
Conversion of common stock non-voting to common stock voting	$	$ 15,880
Liabilities assumed in connection with the Xtrakter acquisition:		
Fair value of assets acquired	$ 44,745	
Cash paid for the capital stock	(37,827)	
Liabilities assumed	$ 6,918	

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

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MARKETAXESS HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Unaudited

1. Organization and Principal Business Activity

MarketAxess Holdings Inc. (the Company or MarketAxess) was incorporated in the State of Delaware on April 11, 2000. Through its subsidiaries, the Company operates an electronic trading platform for corporate bonds and other types of fixed-income instruments through which the Company s institutional investor clients can access liquidity provided by its broker-dealer clients. The Company s multi-dealer trading platform allows its institutional investor clients to simultaneously request competitive, executable bids or offers from multiple broker-dealers, and to execute trades with the broker-dealer of their choice. The Company offers its clients the ability to trade U.S. high-grade corporate bonds, European high-grade corporate bonds, credit default swaps, agencies, high yield and emerging markets bonds and asset-backed and preferred securities. The Company also executes certain bond transactions between and among institutional investor and broker-dealer clients on a riskless principal basis by serving as counterparty to both the buyer and the seller in matching back-to-back trades, which then settle through a third-party clearing organization. The Company provides fixed-income market data analytics and compliance tools that help its clients make trading decisions. The Company also provides trade matching and regulatory transaction reporting services to the securities markets. In addition, the Company provides FIX (Financial Information eXchange) message management tools, connectivity solutions and ancillary technology services that facilitate the electronic communication of order information between trading counterparties.

2. Significant Accounting Policies

Basis of Presentation

The consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany transactions and balances have been eliminated. These consolidated financial statements are unaudited and should be read in conjunction with the audited consolidated financial statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2012. The consolidated financial information as of December 31, 2012 has been derived from audited financial statements not included herein.

These unaudited consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America and the rules and regulations of the U.S. Securities and Exchange Commission (SEC) with respect to Form 10-Q and reflect all adjustments that, in the opinion of management, are normal and recurring, and that are necessary for a fair statement of the results for the interim periods presented. In accordance with such rules and regulations, certain disclosures that are normally included in annual financial statements have been omitted. Interim period operating results may not be indicative of the operating results for a full year.

Cash and Cash Equivalents

Cash and cash equivalents includes cash and money market instruments that are primarily maintained at one major global bank. Given this concentration, the Company is exposed to certain credit risk. The Company defines cash equivalents as short-term interest-bearing investments with maturities at the time of purchase of three months or less.

Securities Available-for-Sale

The Company classifies its marketable securities as available-for-sale securities. Unrealized marketable securities gains and losses, net of taxes, are reflected as a net amount under the caption of accumulated other comprehensive loss in the Consolidated Statements of Financial Condition. Realized gains and losses are recorded in the Consolidated Statements of Operations in other revenues. For the purpose of computing realized gains and losses, cost is determined on a specific identification basis.

The Company assesses whether an other-than-temporary impairment loss on the investments has occurred due to declines in fair value or other market conditions. The portion of an other-than-temporary impairment related to credit loss is recorded as a charge in the Consolidated Statements of Operations. The remainder is recognized in accumulated other comprehensive loss if the Company does not intend to sell the security and it is more likely than not that the Company will not be required to sell the security prior to recovery. No charges for other-than-temporary losses were recorded during the six months ended June 30, 2013 and 2012.

Fair Value Financial Instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A three-tiered hierarchy for determining fair value has been established that prioritizes inputs to valuation techniques used in fair value calculations. The three levels of inputs are defined as Level 1 (unadjusted quoted prices for identical assets or liabilities in active markets), Level 2 (inputs that are observable in the marketplace other than those inputs classified in Level 1) and Level 3 (inputs that are unobservable in the marketplace). The Company s financial assets and liabilities measured at fair value on a recurring basis consist of its money market funds, securities available-for-sale portfolio and one foreign currency forward contract. All other financial instruments are short-term in nature and the carrying amount reported on our Consolidated Statements of Financial Condition approximate fair value.

Allowance for Doubtful Accounts

All accounts receivable have contractual maturities of less than one year and are derived from trading-related fees and commissions and revenues from products and services. The Company continually monitors collections and payments from its customers and maintains an allowance for doubtful accounts. The allowance for doubtful accounts is based upon the historical collection experience and specific collection issues that have been identified. Additions to the allowance for doubtful accounts are charged to bad debt expense, which is included in general and administrative expense in the Company s Consolidated Statements of Operations.

Depreciation and Amortization

Fixed assets are carried at cost less accumulated depreciation. The Company uses the straight-line method of depreciation over three to seven years. Leasehold improvements are stated at cost and are amortized using the straight-line method over the lesser of the life of the improvement or the remaining term of the lease.

Software Development Costs

The Company capitalizes certain costs associated with the development of internal use software at the point at which the conceptual formulation, design and testing of possible software project alternatives have been completed. The Company capitalizes payroll related costs and third party consulting costs incurred during the preliminary software project stage. Once the product is ready for its intended use, such costs are amortized on a straight-line basis over three years. The Company reviews the amounts capitalized for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable.

Cash Provided as Collateral

Cash is provided as collateral for electronic bank settlements and broker-dealer clearance accounts. Cash provided as collateral is included in prepaid expenses and other assets in the Consolidated Statements of Financial Condition.

Foreign Currency Translation and Forward Contracts

Assets and liabilities denominated in foreign currencies are translated using exchange rates at the end of the period; revenues and expenses are translated at average monthly rates. Gains and losses on foreign currency translation are a component of accumulated other comprehensive loss in the Consolidated Statements of Financial Condition. Transaction gains and losses are recorded in general and administrative expense in the Consolidated Statements of Operations.

The Company enters into foreign currency forward contracts to hedge its net investment in its U.K. subsidiaries. Gains and losses on these transactions are included in accumulated other comprehensive loss in the Consolidated Statements of Financial Condition.

Revenue Recognition

The majority of the Company s revenues are derived from commissions for trades executed on its platform and distribution fees that are billed to its broker-dealer clients on a monthly basis. The Company also derives revenues from information and post-trade services, technology products and services, investment income and other income.

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Commission revenue. Commissions are generally calculated as a percentage of the notional dollar volume of bonds traded on the platform and vary based on the type and maturity of the bond traded. Under the Company s transaction fee plans, bonds that are more actively traded or that have shorter maturities are generally charged lower commissions, while bonds that are less actively traded or that have longer maturities generally command higher commissions. For trades that the Company executes between and among institutional investor and broker-dealer clients on a riskless principal basis by serving as counterparty to both the buyer and the seller, the Company earns the commission through the difference in price between the two back-to-back trades. Fee programs for certain products include distribution fees which are recognized monthly.

Information and post-trade services. The Company generates revenue from information services provided to our broker-dealer clients, institutional investor clients and data-only subscribers. Information services are invoiced monthly, quarterly or annually. When billed in advance, revenues are recognized monthly on a straight-line basis. The Company also generates revenue from regulatory transaction reporting and trade matching services. Revenue is recognized in the period the services are provided.

Technology products and services. The Company generates revenues from technology software licenses, maintenance and support services (referred to as post-contract technical support or PCS) and professional consulting services. Revenue is generally recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable and collection is considered probable. The Company generally sells software licenses and PCS together as part of multiple-element arrangements. The Company also enters into contracts for technology integration consulting services unrelated to any software product.

For arrangements that include multiple elements, generally software licenses and PCS, the Company allocates and defers revenue for the undelivered items based on vendor specific objective evidence (VSOE) of the fair value of the undelivered elements and recognizes the difference between the total arrangement fee and the amount deferred for the undelivered items as license revenue. The Company s VSOE of each element is based on historical evidence of stand-alone sales of these elements to third parties or the stated renewal rate for the undelivered elements. When VSOE does not exist for undelivered items, the entire arrangement fee is recognized ratably over the performance period. For PCS, the term is typically one year and revenue is recognized over the duration of the arrangement on a straight-line basis.

Professional consulting services are generally separately priced and are typically not essential to the functionality of the Company s software products. Revenues from these services are recognized separately from the license fee. Generally, revenue from time-and-materials consulting contracts is recognized as services are performed.

Revenues from contracts for technology integration consulting services are recognized on the percentage-of-completion method. Percentage-of-completion accounting involves calculating the percentage of services provided during the reporting period compared to the total estimated services to be provided over the duration of the contract. If estimates indicate that a contract loss will occur, a loss provision is recorded in the period in which the loss first becomes probable and reasonably estimable. Contract losses are determined to be the amount by which the estimated direct and indirect costs of the contract exceed the estimated total revenues that will be generated by the contract. There were no contract loss provisions recorded as of June 30, 2013 and 2012. Revenues recognized in excess of billings are recorded as unbilled services within other assets. Billings in excess of revenues recognized are recorded as deferred revenues until revenue recognition criteria are met.

Initial set-up fees. The Company enters into agreements with its broker-dealer clients pursuant to which the Company provides access to its platform through a non-exclusive and non-transferable license. Broker-dealer clients may pay an initial set-up fee, which is typically due and payable upon execution of the broker-dealer agreement. The initial set-up fee, if any, varies by agreement. Revenue is recognized over the initial term of the agreement, which is generally two years. Initial set-up fees are reported in other income in the Consolidated Statements of Operations.

Stock-Based Compensation

The Company measures and recognizes compensation expense for all share-based payment awards based on their estimated fair values measured as of the grant date. These costs are recognized as an expense in the Consolidated Statements of Operations over the requisite service period, which is typically the vesting period, with an offsetting increase to additional paid-in capital.

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Income Taxes

Income taxes are accounted for using the asset and liability method. Deferred income taxes reflect the net tax effects of temporary differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when such differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recognized against deferred tax assets if it is more likely than not that such assets will not be realized in future years. The Company recognizes interest and penalties related to unrecognized tax benefits in general and administrative expenses in the Consolidated Statements of Operations.

Business Combinations, Goodwill and Intangible Assets

Business acquisitions are accounted for under the purchase method of accounting. The total cost of an acquisition is allocated to the underlying net assets based on their respective estimated fair values. The excess of the purchase price over the estimated fair values of the net assets acquired is recorded as goodwill. Determining the fair value of certain assets acquired and liabilities assumed is judgmental in nature and often involves the use of significant estimates and assumptions, including assumptions with respect to future cash flows, discount rates, growth rates and asset lives.

An impairment review of goodwill is performed on an annual basis and more frequently if circumstances change. Intangible assets with definite lives, including purchased technologies, customer relationships and other intangible assets, are amortized on a straight-line basis over their estimated useful lives, ranging from three to fifteen years. Intangible assets are assessed for impairment when events or circumstances indicate the existence of a possible impairment.

Earnings Per Share

Basic earnings per share is computed by dividing the net income attributable to common stock by the weighted-average number of shares of common stock outstanding during the period. For purposes of computing diluted earnings per share, the weighted-average shares outstanding of common stock reflects the dilutive effect that could occur if convertible securities or other contracts to issue common stock were converted into or exercised for common stock.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Out-of-Period Adjustment

During the second quarter of 2013, the Company determined that it had incorrectly excluded incentive compensation as a component of employee compensation eligible for capitalization under its software development costs capitalization policy. The Company assessed this error and determined that it was not material to previous reporting periods and is not material to the current year. Therefore, the Company has recorded this item as an out-of-period adjustment in the three months ended June 30, 2013 by reducing employee compensation and benefits expense by $2.9 million and increasing depreciation and amortization expense by $1.3 million in the Consolidated Statements of Operations and increasing the net book value of capitalized software by $1.6 million in the Consolidated Statements of Financial Condition. This item was reflected as a non-cash adjustment in the Consolidated Statements of Cash Flows.

Recent Accounting Pronouncements

In 2012, the Financial Accounting Standards Board issued new guidance related to the Statement of Comprehensive Income. Reclassification adjustments out of accumulated other comprehensive income are required on the face of the Consolidated Statement of Operations. This accounting standard is effective for fiscal years beginning on or after December 15, 2012. The Company adopted the new guidance effective January 1, 2013 and there was no impact on the Consolidated Financial Statements.

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3. Net Capital Requirements and Customer Protection Requirements

MarketAxess Corporation, a U.S. subsidiary, is a registered broker-dealer with the SEC and is a member of the Financial Industry Regulatory Authority (FINRA). MarketAxess Corporation claims exemption from SEC Rule 15c3-3, as it does not hold customer securities or funds on account, as defined. Pursuant to the Uniform Net Capital Rule under the Securities Exchange Act of 1934, MarketAxess Corporation is required to maintain minimum net capital, as defined, equal to the greater of $100,000 or 6 2/3% of aggregate indebtedness. MarketAxess Europe Limited, a U.K. subsidiary, is registered as a Multilateral Trading Facility dealer with the Financial Conduct Authority (formerly the Financial Services Authority) (FCA) in the U.K. MarketAxess Canada Limited, a Canadian subsidiary, is registered as an Alternative Trading System dealer under the Securities Act of Ontario and is a member of the Investment Industry Regulatory Organization of Canada. MarketAxess Europe Limited and MarketAxess Canada Limited are subject to certain financial resource requirements of the FCA and the Ontario Securities Commission, respectively. The following table sets forth the capital requirements, as defined, that the Company s subsidiaries were required to maintain as of June 30, 2013:

	MarketAxess Corporation	MarketAxess Europe Limited	MarketAxess Canada Limited
		(In thousands)	
Net capital	$ 45,779	$ 16,345	$ 426
Minimum net capital required	2,028	3,190	262
Excess net capital	$ 43,751	$ 13,155	$ 164

The Company s regulated subsidiaries are subject to U.S., U.K. and Canadian regulations which prohibit repayment of borrowings from the Company or affiliates, paying cash dividends, making loans to the Company or affiliates or otherwise entering into transactions that result in a significant reduction in regulatory net capital or financial resources, respectively, without prior notification to or approval from such regulated entity s principal regulator.

On July 12, 2013, MarketAxess SEF Corporation, a U.S. subsidiary, filed an application to register a swap execution facility (the SEF) with the Commodities Futures Trading Commission (the CFTC). The SEF will be subject to various CFTC regulations, including maintenance of a minimum level of financial resources.

4. Fair Value Measurements

The following table summarizes the valuation of the Company s assets and liabilities measured at fair value as categorized based on the hierarchy described in Note 2.

	Level 1	Level 2	Level 3	Total
		(In thousands)		
As of June 30, 2013				
Money market funds	$ 89,819	$	$	$ 89,819
Securities available-for-sale:				
Municipal securities		12,353		12,353
Corporate bonds		2,126		2,126
Foreign currency forward position		227		227
	$ 89,819	$ 14,706	$	$ 104,525
As of December 31, 2012				
Money market funds	$ 83,519	$	$	$ 83,519
Securities available-for-sale				
U.S. government obligations		31,104		31,104
Municipal securities		17,947		17,947
Corporate bonds		2,157		2,157

Foreign currency forward and option contracts		15		15
	$ 83,519	$ 51,223	$	$ 134,742

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Securities classified within Level 2 were valued using a market approach utilizing prices and other relevant information generated by market transactions involving comparable assets. The foreign currency forward contract is classified within Level 2 as the valuation inputs are based on quoted market prices. There were no financial assets classified within Level 3 during 2013 and 2012.

The Company enters into foreign currency forward contracts to hedge the exposure to variability in foreign currency cash flows resulting from the net investment in the Company s U.K. subsidiaries. The Company assesses each foreign currency forward contract to ensure that it is highly effective at reducing the exposure being hedged. The Company designates each foreign currency forward contract as a hedge, assesses the risk management objective and strategy, including identification of the hedging instrument, the hedged item and the risk exposure and how effectiveness is to be assessed prospectively and retrospectively. These hedges are for a one-month period and are used to limit exposure to foreign currency exchange rate fluctuations. A gross and net fair value asset is included in accounts receivable and a gross and net fair value liability is included in accounts payable in the Consolidated Statements of Financial Condition. Gains or losses on foreign currency forward contracts designated as hedges are included in accumulated other comprehensive loss in the Consolidated Statements of Financial Condition.

A summary of the foreign currency forward contract is as follows:

	As of June 30, 2013	As of December 31, 2012
	(In thousands)	
Notional value	$ 27,335	$ 15,792
Fair value of notional	27,108	15,809
Gross and net fair value asset and (liability)	$ 227	$ (17)

The following is a summary of the Company s securities available-for-sale:

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
	(In thousands)			
As of June 30, 2013				
Municipal securities	$ 12,342	$ 11	$	$ 12,353
Corporate bonds	2,122	4		2,126
Total securities available-for-sale	$ 14,464	$ 15	$	$ 14,479
As of December 31, 2012				
U.S. government obligations	$ 30,255	$ 849	$	$ 31,104
Municipal securities	17,941	10	(4)	17,947
Corporate bonds	2,159		(2)	2,157
Total securities available-for-sale	$ 50,355	$ 859	$ (6)	$ 51,208

The following table summarizes the contractual maturities of securities available-for-sale:

	As of June 30, 2013	As of December 31, 2012
	(In thousands)	
Less than one year	$ 8,909	$ 10,870

Due in 1 5 years	5,570	40,338
Total securities available-for-sale	$ 14,479	$ 51,208

Proceeds from the sales and maturities of securities available-for-sale during the six months ended June 30, 2013 and 2012 were $36.1 million and $25.0 million, respectively.

There were no unrealized losses on securities available-for-sale as of June 30, 2013. The following table provides fair values and unrealized losses on securities available-for-sale and by the aging of the securities continuous unrealized loss position as of December 31, 2012:

	Less than Twelve Months		Twelve Months or More		Total	
	Estimated fair value	Gross unrealized losses	Estimated fair value	Gross unrealized losses	Estimated fair value	Gross unrealized losses
			(In thousands)			
As of December 31, 2012						
Municipal securities	$ 2,780	$ (4)	$	$	$ 2,780	$ (4)
Corporate bonds	2,157	(2)			2,157	(2)
Total securities available-for-sale	$ 4,937	$ (6)	$	$	$ 4,937	$ (6)

5. Acquisition

On February 28, 2013, the Company acquired all of the outstanding shares of Xtrakter Limited (Xtrakter) from Euroclear S.A./N.V. Xtrakter is a U.K.-based provider of trade matching, regulatory transaction reporting and market and reference data across a range of fixed-income products. The acquisition of Xtrakter provides the Company with an expanded set of technology solutions ahead of incoming pre-and post-trade transparency mandates from the Markets in Financial Instruments Directive II in Europe. The aggregate purchase price was $37.8 million in cash, net of acquired cash. During the six months ended June 30, 2013, transaction costs such as legal, regulatory, accounting, tax, valuation and other professional services were $1.6 million.

The Company has completed a preliminary allocation of the purchase price to the fair value of assets acquired and liabilities assumed at the date of acquisition. It is possible that the purchase price allocation will be adjusted upon finalization of the valuation for the acquired intangible assets and income tax liabilities. The preliminary purchase price allocation is as follows (in thousands):

Purchase price	$ 46,683
Less: acquired cash	(8,856)
Purchase price, net of acquired cash	37,827
Accounts receivable	3,538
Intangible assets	13,255
Other assets	1,718
Deferred tax liability, net	(2,342)
Accounts payable, accrued expenses and deferred revenue	(4,576)
Goodwill	$ 26,234

The acquired intangible assets are as follows (in thousands, except for useful lives):

	Costs	Useful Lives
Customer relationships	$ 5,455	10-15 years
Internally developed software	5,000	3 years
Tradename- indefinite life	1,820	indefinite
Tradename- finite life	300	3 years

Non-compete agreement	380	3 years
Other	300	indefinite
Total	$ 13,255	

The identifiable intangible assets and goodwill are not deductible for tax purposes.

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Since the date of the acquisition, Xtrakter-related revenue and net income of $7.4 million and $0.3 million, respectively, have been included in the Company s Consolidated Statements of Operations. The following unaudited pro forma consolidated financial information reflects the results of operations of the Company for the three and six months ended June 30, 2013 and 2012, as if the acquisition of Xtrakter had occurred as of the beginning of each period presented, after giving effect to certain purchase accounting adjustments. These pro forma results are not necessarily indicative of what the Company s operating results would have been had the acquisition actually taken place at the beginning of each period presented. The pro forma financial information includes the amortization charges from acquired intangible assets, adjustments to interest income to reflect the cash purchase price and related tax effects.

	Pro forma		
	Three Months Ended June 30,	Six Months Ended June 30,	
	2012	2013	2012
	(In thousands, except per share amounts)		
Revenues	$ 55,096	$ 125,040	$ 112,273
Income before income taxes	$ 20,867	$ 55,860	$ 43,587
Net income	$ 12,423	$ 34,685	$ 25,886
Basic net income per common share	$ 0.34	$ 0.94	$ 0.71
Diluted net income per common share	$ 0.33	$ 0.92	$ 0.68

6. Goodwill and Intangible Assets

The following is a summary of changes in goodwill and intangible assets with indefinite lives for the period ended June 30, 2013 (in thousands):

Balance at beginning of period	$ 31,785
Goodwill from Xtrakter acquisition	26,234
Intangible assets with indefinite lives from Xtrakter acquisition	2,120
Balance at end of period	$ 60,139

Intangible assets that are subject to amortization, including the related accumulated amortization, are comprised of the following:

	June 30, 2013			December 31, 2012		
	Cost	Accumulated Amortization	Net Carrying Amount	Cost	Accumulated Amortization	Net Carrying Amount
			(In thousands)			
Technology	$ 9,010	$ (4,542)	$ 4,468	$ 4,010	$ (3,892)	$ 118
Customer relationships	8,985	(2,751)	6,234	3,530	(2,364)	1,166
Non-competition agreements	1,640	(1,302)	338	1,260	(1,214)	46
Tradenames	890	(623)	267	590	(570)	20
Total	$ 20,525	$ (9,218)	$ 11,307	$ 9,390	$ (8,040)	$ 1,350

Amortization expense associated with identifiable intangible assets was $1.2 million for the six months ended June 30, 2013 and $0.7 million for the six months ended June 30, 2012. Estimated total amortization expense is $2.6 million for 2013, $2.5 million for 2014, $2.5 million for 2015, $0.9 million for 2016 and $0.5 million for 2017.

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7. Income Taxes

The provision for income taxes consists of the following:

	Three Months Ended June 30, 2013	2012	Six Months Ended June 30, 2013	2012
	(In thousands)			
Current:				
Federal	$ 9,089	$ (2,554)	$ 12,597	$ 1,011
State and local	1,819	(298)	2,898	872
Foreign	418	(31)	290	(121)
Total current provision	11,326	(2,883)	15,785	1,762
Deferred:				
Federal	989	9,473	4,736	13,018
State and local	184	2,120	863	2,992
Foreign	(331)	(139)	(229)	54
Total deferred provision	842	11,454	5,370	16,064
Provision for income taxes	$ 12,168	$ 8,571	$ 21,155	$ 17,826

The following is a summary of the Company s net deferred tax assets:

	As of June 30, 2013	December 31, 2012
	(In thousands)	
Deferred tax assets and liabilities	$ 5,210	$ 10,169
Valuation allowance	(699)	(727)
Deferred tax assets, net	$ 4,511	$ 9,442

The Company or one of its subsidiaries files U.S. federal, state and foreign income tax returns. No income tax returns have been audited, with the exception of New York city (through 2003) and state (through 2006) and Connecticut state (through 2003) tax returns. Examinations of the Company s federal tax return for 2011 and New York state franchise tax returns for 2007 through 2009 are currently underway. The Company cannot estimate when the examinations will conclude.

Effective January 1, 2013, the Company has determined that unremitted earnings of its foreign subsidiaries will be considered indefinitely reinvested outside of the United States. There were no aggregate unremitted earnings as of December 31, 2012 and the impact of the reinvestment decision was immaterial to the income tax provision for the three and six months ended June 30, 2013.

8. Stock-Based Compensation Plans

Stock-based compensation expense for the three and six months ended June 30, 2013 and 2012 was as follows:

Three Months Ended June 30, 2013	2012	Six Months Ended June 30, 2013	2012
(In thousands)			

Employee:				
Restricted stock and performance shares	$ 1,848	$ 1,806	$ 3,497	$ 3,474
Stock options	226	161	423	306
	2,074	1,967	3,920	3,780
Non-employee directors:				
Restricted stock				