

MARKETAXESS HOLDINGS INC
Form 10-Q
October 28, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2016

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
(State or other jurisdiction of

incorporation or organization)

299 Park Avenue, 10th Floor New York, New York

52-2230784
(IRS Employer

Identification No.)

10171

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(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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, 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 definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

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

As of October 27, 2016, the number of shares of the Registrant's voting common stock outstanding was 37,579,648.

MARKETAXESS HOLDINGS INC.

FORM 10-Q FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2016

TABLE OF CONTENTS

| | Page |
|--|------|
| <u>PART I — Financial Information</u> | |
| Item 1. <u>Financial Statements (Unaudited)</u> | 3 |
| <u>Consolidated Statements of Financial Condition as of September 30, 2016 and December 31, 2015</u> | 3 |
| <u>Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2016 and 2015</u> | 4 |
| <u>Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2016 and 2015</u> | 5 |
| <u>Consolidated Statement of Changes in Stockholders' Equity for the Nine Months Ended September 30, 2016</u> | 6 |
| <u>Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2016 and 2015</u> | 7 |
| <u>Notes to Consolidated Financial Statements</u> | 8 |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 19 |
| Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u> | 34 |
| Item 4. <u>Controls and Procedures</u> | 35 |
| <u>PART II — Other Information</u> | |
| Item 1. <u>Legal Proceedings</u> | 36 |
| Item 1A. <u>Risk Factors</u> | 36 |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | 36 |
| Item 3. <u>Defaults Upon Senior Securities</u> | 36 |
| Item 4. <u>Mine Safety Disclosures</u> | 36 |
| Item 5. <u>Other Information</u> | 37 |
| Item 6. <u>Exhibits</u> | 37 |

PART I — Financial Information

Item 1. Financial Statements

MARKETAXESS HOLDINGS INC.

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(Unaudited)

| | As of | |
|--|------------------------------------|----------------------|
| | September 30, 2016 | December 31, 2015 |
| | (In thousands, except share and | |
| | per share amounts) | |
| ASSETS | | |
| Cash and cash equivalents | \$ 161,444 | \$ 199,728 |
| Investments, at fair value | 170,655 | 84,706 |
| Accounts receivable, net of allowance of \$194 and \$109 as of | | |
| September 30, 2016 and December 31, 2015, respectively | 56,583 | 40,459 |
| Goodwill and intangible assets, net of accumulated amortization | 63,539 | 64,142 |
| Furniture, equipment, leasehold improvements and capitalized | | |
| software, net of accumulated depreciation and amortization | 30,773 | 30,897 |
| Prepaid expenses and other assets | 11,758 | 9,880 |
| Deferred tax assets, net | 7,399 | 9,229 |
| Total assets | \$ 502,151 | \$ 439,041 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Liabilities | | |
| Accrued employee compensation | \$ 28,546 | \$ 29,296 |
| Income and other tax liabilities | 3,634 | 4,463 |
| Deferred revenue | 3,006 | 2,312 |
| Accounts payable, accrued expenses and other liabilities | 15,265 | 12,257 |
| Total liabilities | 50,451 | 48,328 |
| Commitments and Contingencies (Note 10) | — | — |
| Stockholders' equity | | |
| Preferred stock, \$0.001 par value, 4,855,000 shares authorized, | | |
| no shares issued and outstanding as of September 30, 2016 and | | |
| December 31, 2015 | — | — |

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| | | |
|---|------------|------------|
| Series A Preferred Stock, \$0.001 par value, 110,000 shares authorized, no shares issued and outstanding as of September 30, 2016 and December 31, 2015 | — | — |
| Common stock voting, \$0.003 par value, 110,000,000 shares authorized, 40,093,981 shares and 39,821,519 shares issued and 37,594,196 shares and 37,409,274 shares outstanding as of September 30, 2016 and December 31, 2015, respectively | 120 | 121 |
| Common stock non-voting, \$0.003 par value, 10,000,000 shares authorized, no shares issued and outstanding as of September 30, 2016 and December 31, 2015 | — | — |
| Additional paid-in capital | 337,261 | 321,215 |
| Treasury stock - Common stock voting, at cost, 2,499,785 and 2,412,245 shares as of September 30, 2016 and December 31, 2015, respectively | (107,279) | (93,405) |
| Retained earnings | 231,743 | 168,011 |
| Accumulated other comprehensive loss | (10,145) | (5,229) |
| Total stockholders' equity | 451,700 | 390,713 |
| Total liabilities and stockholders' equity | \$ 502,151 | \$ 439,041 |

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

MARKETAXESS HOLDINGS INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

| | Three Months | | Nine Months Ended | |
|--|--|----------|-------------------|---------------|
| | Ended September | 2015 | September 30, | September 30, |
| | 30, | | 2016 | 2015 |
| | 2016 | 2015 | 2016 | 2015 |
| | (In thousands, except per share amounts) | | | |
| Revenues | | | | |
| Commissions | \$81,456 | \$65,178 | \$246,788 | \$198,608 |
| Information and post-trade services | 7,322 | 7,671 | 23,687 | 22,982 |
| Investment income | 534 | 248 | 1,469 | 621 |
| Other | 959 | 1,095 | 3,539 | 4,243 |
| Total revenues | 90,271 | 74,192 | 275,483 | 226,454 |
| Expenses | | | | |
| Employee compensation and benefits | 23,914 | 21,002 | 74,256 | 62,769 |
| Depreciation and amortization | 4,325 | 4,642 | 13,546 | 13,857 |
| Technology and communications | 4,245 | 3,891 | 12,826 | 12,196 |
| Professional and consulting fees | 4,342 | 3,210 | 12,449 | 9,503 |
| Occupancy | 1,220 | 1,246 | 3,606 | 3,470 |
| Marketing and advertising | 2,140 | 1,304 | 5,742 | 4,260 |
| General and administrative | 3,731 | 3,544 | 11,783 | 9,485 |
| Total expenses | 43,917 | 38,839 | 134,208 | 115,540 |
| Income before income taxes | 46,354 | 35,353 | 141,275 | 110,914 |
| Provision for income taxes | 15,436 | 12,638 | 48,268 | 39,368 |
| Net income | \$30,918 | \$22,715 | \$93,007 | \$71,546 |
| Net income per common share | | | | |
| Basic | \$0.84 | \$0.62 | \$2.52 | \$1.95 |
| Diluted | \$0.82 | \$0.60 | \$2.46 | \$1.90 |
| Cash dividends declared per common share | \$0.26 | \$0.20 | \$0.78 | \$0.60 |
| Weighted average shares outstanding | | | | |
| Basic | 36,889 | 36,681 | 36,847 | 36,695 |
| Diluted | 37,792 | 37,643 | 37,738 | 37,636 |

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

MARKETAXESS HOLDINGS INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

| | Three Months Ended September 30, 2016 | | 2015 | | Nine Months Ended September 30, 2016 | | 2015 | |
|---|--|----------|----------|----------|---|--|------|--|
| | (In thousands) | | | | | | | |
| Net income | \$30,918 | \$22,715 | \$93,007 | \$71,546 | | | | |
| Net cumulative translation adjustment and foreign currency exchange hedge, net of tax of \$346, \$(69), \$4,448 and \$(229), respectively | (1,052) | (105) | (5,093) | (420) | | | | |
| Net unrealized gain (loss) on securities available-for-sale, net of tax of \$(27), \$(4), \$109 and \$(7), respectively | (44) | (6) | 177 | (12) | | | | |
| Comprehensive Income | \$29,822 | \$22,604 | \$88,091 | \$71,114 | | | | |

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

MARKETAXESS HOLDINGS INC.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(Unaudited)

| | Common Stock Voting (In thousands) | Additional Paid-In Capital | Treasury Stock - Common Stock Voting | Retained Earnings | Accumulated Other Comprehen- sive Loss | Total Stockholders' Equity |
|---|---|----------------------------------|--|----------------------|---|----------------------------------|
| Balance at December 31, 2015 | \$121 | \$321,215 | \$(93,405) | \$168,011 | \$ (5,229) | \$ 390,713 |
| Net income | — | — | — | 93,007 | — | 93,007 |
| Cumulative translation adjustment and foreign currency exchange hedge, net of tax | — | — | — | — | (5,093) | (5,093) |
| Unrealized gain on securities available-for-sale, net of tax | — | — | — | — | 177 | 177 |
| Stock-based compensation | — | 10,636 | — | — | — | 10,636 |
| Exercise of stock options | — | 2,172 | — | — | — | 2,172 |
| Withholding tax payments on restricted stock vesting and stock option exercises | (1) | (5,928) | — | — | — | (5,929) |
| Excess tax benefits from stock-based compensation | — | 9,166 | — | — | — | 9,166 |
| Repurchases of common stock | — | — | (13,874) | — | — | (13,874) |
| Cash dividend on common stock | — | — | — | (29,275) | — | (29,275) |
| Balance at September 30, 2016 | \$120 | \$337,261 | \$(107,279) | \$231,743 | \$ (10,145) | \$ 451,700 |

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

MARKETAXESS HOLDINGS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

| | Nine Months Ended September 30, | |
|--|------------------------------------|-------------------|
| | 2016 | 2015 |
| | (In thousands) | |
| Cash flows from operating activities | | |
| Net income | \$93,007 | \$71,546 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 13,546 | 13,857 |
| Stock-based compensation expense | 10,636 | 9,276 |
| Deferred taxes | (1,387) | (1,250) |
| Other | 878 | 1,638 |
| Changes in operating assets and liabilities: | | |
| (Increase) in accounts receivable | (16,439) | (15,595) |
| (Increase) in prepaid expenses and other assets | (2,151) | (347) |
| (Increase) in corporate debt trading investments | (74,535) | — |
| (Increase) in mutual funds held in rabbi trust | (1,328) | — |
| (Decrease) in accrued employee compensation | (750) | (2,472) |
| (Decrease) in income and other tax liabilities | (843) | (1,309) |
| Increase (decrease) in deferred revenue | 694 | (250) |
| Increase in accounts payable, accrued expenses and other liabilities | 2,646 | 1,244 |
| Net cash provided by operating activities | \$23,974 | 76,338 |
| Cash flows from investing activities | | |
| Available-for-sale investments: | | |
| Proceeds from maturities and sales | 32,025 | 25,048 |
| Purchases | (42,495) | (57,175) |
| Purchases of furniture, equipment and leasehold improvements | (4,754) | (3,730) |
| Capitalization of software development costs | (9,058) | (7,517) |
| Other | 383 | (141) |
| Net cash (used in) investing activities | (23,899) | (43,515) |
| Cash flows from financing activities | | |
| Cash dividend on common stock | (28,914) | (22,201) |
| Exercise of stock options | 2,172 | 1,530 |
| Withholding tax payments on restricted stock vesting and stock option exercises | (5,929) | (4,450) |
| Excess tax benefits from stock-based compensation | 9,166 | 4,202 |
| Repurchases of common stock | (13,874) | (20,025) |
| Net cash (used in) financing activities | (37,379) | (40,944) |
| Effect of exchange rate changes on cash and cash equivalents | (980) | (427) |
| Cash and cash equivalents | | |
| Net (decrease) for the period | (38,284) | (8,548) |
| Beginning of period | 199,728 | 168,924 |
| End of period | \$ 161,444 | \$ 160,376 |

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

7

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, MarketAxess operates a leading electronic trading platform that enables fixed-income market participants to efficiently trade corporate bonds and other types of fixed-income instruments using MarketAxess' patented trading technology. Over 1,100 institutional investor and broker-dealer firms are active users of the MarketAxess trading platform, accessing global liquidity in U.S. high-grade corporate bonds, emerging markets and high-yield bonds, European bonds, U.S. agency bonds, municipal bonds, credit default swaps and other fixed-income securities. Through its Open Trading™ protocols, MarketAxess executes certain bond transactions between and among institutional investor and broker-dealer clients on a matched principal basis by serving as counterparty to both the buyer and the seller in trades which then settle through a third-party clearing broker. MarketAxess also offers a number of trading-related products and services, including: market data to assist clients with trading decisions; connectivity solutions that facilitate straight-through processing; technology services to optimize trading environments; and execution services for exchange-traded fund managers and other clients. Through its Trax® division, MarketAxess also offers a range of pre- and post-trade services, including trade matching, regulatory transaction reporting and market and reference data, across a range of fixed-income and other products.

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, 2015. The consolidated financial information as of December 31, 2015 has been derived from audited financial statements not included herein. These unaudited consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) 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 in relation to its deposits at this bank. The Company defines cash equivalents as short-term interest-bearing investments with maturities at the time of purchase of three months or less.

Investments

The Company determines the appropriate classification of securities at the time of purchase which are recorded in the Consolidated Statements of Financial Condition on the trade date. Securities are classified as available-for-sale or trading. The Company's available-for-sale investments are comprised of municipal bonds and investment grade corporate debt securities. Available-for-sale investments are carried at fair value with the unrealized gains or losses reported in accumulated other comprehensive loss in the Consolidated Statements of Financial Condition. Trading investments primarily include investment grade corporate debt securities and are carried at fair value, with unrealized gains or losses included in other income in the Consolidated Statements of Operations.

The Company assesses whether an other-than-temporary impairment loss on the available-for-sale 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 other income 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 nine months ended September 30, 2016 and 2015.

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, trading securities and foreign currency forward contracts. All other financial instruments are short-term in nature and the carrying amount is reported on the Consolidated Statements of Financial Condition at 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 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. The Company amortizes leasehold improvements on a straight-line basis 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, including among other items, employee compensation and related benefits and third party consulting costs at the point at which the conceptual formulation, design and testing of possible software project alternatives have been completed. 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 broker-dealer clearing 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, investment income and other income.

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, size, yield 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 matched 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 matched principal 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 deferred and 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 professional consulting services, technology software licenses and maintenance and support 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. Technology products and services revenue is reported in other income in the Consolidated Statements of Operations.

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 a 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.

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 combinations 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.

The Company operates as a single reporting unit. Subsequent to an acquisition, goodwill no longer retains its identification with a particular acquisition, but instead becomes identifiable with the entire reporting unit. As a result, all of the fair value of the Company is available to support the value of goodwill. An impairment review of goodwill is performed on an annual basis, at year-end, or 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 15 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 GAAP 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 Adjustments

During the first quarter of 2016, the Company determined that it had incorrectly recorded deferred taxes for the cumulative translation adjustment (“CTA”) that arises from converting the local currency financial statements into U.S. dollars. Upon making a permanent reinvestment assertion on unremitted earnings from foreign subsidiaries effective January 1, 2013, the Company should have eliminated any deferred tax balances derived from the CTA balance. The Company also determined that gains and losses on the foreign currency forward contracts used to hedge the net investment in certain foreign subsidiaries were not appropriately considered as taxable income or expense in the consolidated tax returns. The Company assessed these errors and determined that they were not material to previous reporting periods. Therefore, the Company recorded these items as out-of-period adjustments in the three months ended March 31, 2016 by decreasing deferred tax assets by \$3.1 million, decreasing other comprehensive income by \$2.1 million and increasing prepaid expenses and other assets by \$1.0 million in the Consolidated Statements of Financial Condition.

Recent Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-15, “Statement of Cash Flows (Topic 230)” (“ASU 2016-15”). ASU 2016-15 is intended to provide clarification on the treatment of certain cash receipts and payments. The ASU will be effective for the Company beginning January 1, 2018 and early adoption is permitted. The Company is in the process of determining the method of adoption and assessing the impact of ASU 2016-15 on the Company’s Consolidated Financial Statements.

In June 2016, the FASB issued ASU 2016-13, “Financial Instruments – Credit Losses (Topic 326)” (“ASU 2016-13”). ASU 2016-13 is intended to require timelier recording of credit losses with respect to loans and other financial instruments. The ASU will be effective for the Company beginning January 1, 2020 and early adoption is permitted. The Company is in the process of determining the method of adoption and assessing the impact of ASU 2016-13 on the Company’s Consolidated Financial Statements.

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers” (“ASU 2014-09”) and has subsequently issued a series of modifying ASUs that will not change the core principle of the guidance stated in ASU 2014-09. The core principle of ASU 2014-09 is that an entity should recognize revenue for the transfer of goods or services equal to the amount that it expects to be entitled to receive for those goods or services. The modifying ASUs include: (i) ASU 2016-12, “Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients”, issued in May 2016; (ii) (ASU 2016-10, “Revenue from Contracts with Customers (Topic 606):

Identifying Performance Obligations and Licensing”, issued in April 2016; and (iii) ASU 2016-08, “Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)”, issued in March 2016. The ASUs issued in 2016 will have the same effective date and transition requirements as the new revenue standard issued in ASU 2014-09. The Company is in the process of determining the method of adoption and assessing the impact of ASU 2014-09 and its subsequent updates on the Company’s Consolidated Financial Statements.

In March 2016, the FASB issued ASU 2016-09, “Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting” (“ASU 2016-09”). ASU 2016-09 simplifies several aspects related to the accounting for share-based payment transactions, including the accounting for income taxes, statutory tax withholding requirements and classification on the statement of cash flows. ASU 2016-09 will be effective for the Company beginning January 1, 2017 and early adoption is permitted. The Company is currently in the process of determining the method of adoption and assessing the impact of ASU 2016-09 on the Company's Consolidated Financial Statements.

In March 2016, the FASB issued ASU 2016-02, “Leases” (“ASU 2016-02”). The guidance affects the accounting for leases and provides for a lessee model that brings substantially all leases onto the balance sheet. ASU 2016-02 will be effective for the Company

beginning January 1, 2019 and early adoption is permitted. The Company is currently in the process of determining the method of adoption and assessing the impact of ASU 2016-02 on the Company's Consolidated Financial Statements.

3. Net Capital Requirements

Certain U.S. subsidiaries of the Company are registered as a broker-dealer or swap execution facility and therefore are subject to the applicable rules and regulations of the SEC and the Commodity Futures Trading Commission. These rules contain minimum net capital requirements, as defined in the applicable regulations, and also may require a significant part of the registrants' assets be kept in relatively liquid form. Certain of the Company's foreign subsidiaries are regulated by the Financial Conduct Authority in the U.K. or Ontario Securities Commission in Canada and must maintain financial resources, as defined in the applicable regulations, in excess of the applicable financial resources requirement. As of September 30, 2016, each of the Company's subsidiaries that are subject to these regulations had net capital or financial resources in excess of their minimum requirements. As of September 30, 2016, the Company's subsidiaries maintained aggregate net capital and financial resources that was \$107.3 million in excess of the required levels of \$10.4 million.

Each of the Company's U.S. and foreign regulated subsidiaries are subject to local regulations which generally 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 without prior notification to or approval from such regulated entity's principal regulator.

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 September 30, 2016 | | | | |
| Money market funds | \$37,609 | \$— | \$ — | \$37,609 |
| Securities available-for-sale | | | | |
| Corporate debt | — | 94,781 | — | 94,781 |
| Trading securities | | | | |
| Corporate debt | — | 74,546 | — | 74,546 |
| Mutual funds held in rabbi trust | — | 1,328 | — | 1,328 |
| Foreign currency forward position | — | 318 | — | 318 |
| Total | \$37,609 | \$170,973 | \$ — | \$208,582 |
| As of December 31, 2015 | | | | |
| Money market funds | \$61,913 | \$— | \$ — | \$61,913 |
| Securities available-for-sale | | | | |

| | | | | |
|-----------------------------------|----------|----------|------|-----------|
| Corporate debt | — | 82,671 | — | 82,671 |
| Municipal securities | — | 2,035 | — | 2,035 |
| Foreign currency forward position | — | 354 | — | 354 |
| Total | \$61,913 | \$85,060 | \$ — | \$146,973 |

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 contracts are classified within Level 2 as the valuation inputs are based on quoted market prices. The mutual funds held in a rabbi trust represent investments associated with the deferred cash incentive plan. See Note 14 to these Consolidated Financial Statements for further discussion of the deferred cash incentive plan. There were no financial assets classified within Level 3 during the nine months ended September 30, 2016 and 2015.

The Company enters into foreign currency forward contracts to hedge the net investment in the Company's U.K. subsidiaries. The Company designates each foreign currency forward contract as a hedge and 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. The fair value of the asset is included in prepaid expenses and other assets and the fair value of the liability

is included in accounts payable, accrued expenses and other liabilities 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 Company's foreign currency forward position is as follows:

| | As of | |
|-------------------------|----------------|--------------|
| | September 30, | December 31, |
| | 2016 | 2015 |
| | (In thousands) | |
| Notional value | \$59,962 | \$ 45,716 |
| Fair value of notional | 59,644 | 45,362 |
| Fair value of the asset | \$318 | \$ 354 |

The following is a summary of the Company's investments:

| | Amortized cost | Gross unrealized gains | Gross unrealized losses | Estimated fair value |
|-------------------------------------|----------------|------------------------|-------------------------|----------------------|
| | (In thousands) | | | |
| As of September 30, 2016 | | | | |
| Securities available-for-sale | | | | |
| Corporate debt | \$94,760 | \$ 59 | \$ (38) | \$94,781 |
| Total securities available-for-sale | 94,760 | 59 | (38) | 94,781 |
| Trading securities | | | | |
| Corporate debt | 74,370 | 188 | (12) | 74,546 |
| Mutual funds held in rabbi trust | 1,167 | 161 | — | 1,328 |
| Total trading securities | 75,537 | 349 | (12) | 75,874 |
| Total investments | \$170,297 | \$ 408 | (50) | \$170,655 |
| As of December 31, 2015 | | | | |
| Securities available-for-sale | | | | |
| Corporate debt | \$82,937 | \$ 4 | \$ (270) | \$82,671 |
| Municipal securities | 2,035 | — | — | 2,035 |
| Total securities available-for-sale | \$84,972 | \$ 4 | \$ (270) | \$84,706 |

The following table summarizes the fair value of the investments based upon the contractual maturities:

| | As of | |
|--|----------------|--------------|
| | September 30, | December 31, |
| | 2016 | 2015 |
| | (In thousands) | |

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| | | |
|--------------------|-----------|-----------|
| Less than one year | \$99,264 | \$ 37,694 |
| Due in 1 - 5 years | 71,391 | 47,012 |
| Total | \$170,655 | \$ 84,706 |

Proceeds from the sales and maturities of investments during the nine months ended September 30, 2016 and 2015 were \$48.1 million and \$25.0 million, respectively.

The following table provides fair values and unrealized losses on investments and by the aging of the securities' continuous unrealized loss position as of September 30, 2016 and December 31, 2015:

| | 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 September 30, 2016 | | | | | | |
| Corporate debt | \$49,177 | \$ (41) | \$2,000 | \$ (9) | \$51,177 | \$ (50) |
| As of December 31, 2015 | | | | | | |
| Corporate debt | \$70,651 | \$ (270) | \$— | \$ — | \$70,651 | \$ (270) |

5. Goodwill and Intangible Assets

Goodwill and intangible assets with indefinite lives was \$59.7 million as of both September 30, 2016 and December 31, 2015. Intangible assets that are subject to amortization, including the related accumulated amortization, are comprised of the following:

| | September 30, 2016 | | | December 31, 2015 | | |
|----------------------------|--------------------|--------------------------|-----------------|-------------------|--------------------------|-----------------|
| | Cost | Accumulated Amortization | Net | Cost | Accumulated Amortization | Net |
| | | | Carrying Amount | | | Carrying Amount |
| (In thousands) | | | | | | |
| Technology | \$5,770 | \$ (5,770) | \$ — | \$5,770 | \$ (5,492) | \$ 278 |
| Customer relationships | 5,638 | (1,812) | 3,826 | 5,668 | (1,553) | 4,115 |
| Non-competition agreements | 380 | (380) | — | 380 | (359) | 21 |
| Tradenames | 370 | (370) | — | 370 | (353) | 17 |
| Total | \$12,158 | \$ (8,332) | \$ 3,826 | \$12,188 | \$ (7,757) | \$ 4,431 |

Amortization expense associated with identifiable intangible assets was \$0.6 million and \$1.7 million for the nine months ended September 30, 2016 and 2015, respectively. Estimated total amortization expense is \$0.7 million for 2016, and \$0.4 million for each of 2017, 2018, 2019 and 2020.

6. Income Taxes

The provision for income taxes consists of the following:

| | Three Months Ended September 30, 2016 | | 2015 | | Nine Months Ended September 30, 2016 | | 2015 | |
|-----------------------------------|--|-----------------|-----------------|-----------------|---|--|------|--|
| | (In thousands) | | | | | | | |
| Current: | | | | | | | | |
| Federal | \$13,273 | \$11,041 | \$30,898 | \$28,131 | | | | |
| State and local | 1,895 | 2,036 | 5,055 | 5,234 | | | | |
| Foreign | 1,714 | 1,234 | 4,599 | 3,189 | | | | |
| Total current provision | 16,882 | 14,311 | 40,552 | 36,554 | | | | |
| Deferred: | | | | | | | | |
| Federal | (918) | (1,246) | 6,895 | 2,658 | | | | |
| State and local | (154) | (209) | 964 | 420 | | | | |
| Foreign | (374) | (218) | (143) | (264) | | | | |
| Total deferred provision | (1,446) | (1,673) | 7,716 | 2,814 | | | | |
| Provision for income taxes | \$15,436 | \$12,638 | \$48,268 | \$39,368 | | | | |

The Company or one of its subsidiaries files U.S. federal, state and foreign income tax returns. Income tax returns for U.S. Federal (through 2013), New York City (through 2003) and state (through 2009) and Connecticut state (through 2003) have been audited. An examination of New York State tax returns for 2010 through 2012 is currently underway. The Company cannot estimate

when the examinations will conclude or the impact such examinations will have on the Company's Consolidated Financial Statements, if any.

The Company has determined that unremitted earnings of the Company's foreign subsidiaries are considered indefinitely reinvested outside of the United States.

7. Stock-Based Compensation Plans

Stock-based compensation expense for the three and nine months ended September 30, 2016 and 2015 was as follows:

| | Three Months Ended September 30, 2016 | | Nine Months Ended September 30, 2015 | |
|--------------------------------|--|---------|---|---------|
| | 2016 | 2015 | 2016 | 2015 |
| | (In thousands) | | | |
| Employees | \$3,387 | \$2,958 | \$9,963 | \$8,596 |
| Non-employee directors | 312 | 294 | 673 | 680 |
| Total stock-based compensation | \$3,699 | \$3,252 | \$10,636 | \$9,276 |

The Company records stock-based compensation for employees in employee compensation and benefits and for non-employee directors in general and administrative expenses in the Consolidated Statements of Operations.

During the nine months ended September 30, 2016, the Company granted to employees and directors a total of 101,215 shares of restricted stock or restricted stock units, performance-based shares with an expected pay-out at target of 48,899 shares of common stock and 112,988 options to purchase shares of common stock. The fair value of the restricted stock and performance-based share awards was based on a weighted-average fair value per share at the grant date of \$106.25 and \$102.54, respectively. Based on the Black-Scholes option pricing model, the weighted-average fair value for each option granted was \$31.80 per share.

As of September 30, 2016, the total unrecognized compensation cost related to all non-vested awards was \$25.8 million. That cost is expected to be recognized over a weighted-average period of 2.5 years.

8. Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per common share:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|--|------|---------------------------------------|------|
| | 2016 | 2015 | 2016 | 2015 |

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(In thousands, except per share amounts)

| | | | | |
|---|----------|----------|----------|----------|
| Net income | \$30,918 | \$22,715 | \$93,007 | \$71,546 |
| Basic weighted average shares outstanding | 36,889 | 36,681 | 36,847 | 36,695 |
| Dilutive effect of stock options and restricted stock | 903 | 962 | 891 | 941 |
| Diluted weighted average shares outstanding | 37,792 | 37,643 | 37,738 | 37,636 |
| Basic earnings per share | \$0.84 | \$0.62 | \$2.52 | \$1.95 |
| Diluted earnings per share | \$0.82 | \$0.60 | \$2.46 | \$1.90 |

Stock options and restricted stock totaling 6,480 shares and 130,112 shares for the three months ended September 30, 2016 and 2015, respectively, and 112,004 shares and 170,429 shares for the nine months ended September 30, 2016 and 2015, respectively, were excluded from the computation of diluted earnings per share because their effect would have been antidilutive. The computation of diluted shares can vary among periods due, in part, to the change in the average price of the Company's common stock.

9. Credit Agreement

In January 2013, the Company entered into a three-year credit agreement that provided for revolving loans and letters of credit up to an aggregate of \$50.0 million. In October 2015, the Company entered into an amended and restated credit agreement (the "Credit Agreement") that increased the borrowing capacity to an aggregate of \$100.0 million, including a \$5.0 million sub-limit for standby letters of credit. The Credit Agreement will mature in October 2017. As of September 30, 2016, the Company had \$0.9 million in letters of credit outstanding leaving \$99.1 million available to borrow under the Credit Agreement. Subject to satisfaction of certain specified conditions, the Company is permitted to upsize the borrowing capacity under the Credit Agreement by an additional \$50.0 million.

Borrowings under the Credit Agreement will bear interest at a rate per annum equal to either of the following, as designated by the Company for each borrowing: (A) the sum of (i) the greatest of (a) the prime rate, as defined, (b) the federal funds effective rate plus 0.50% and (c) one month adjusted LIBOR plus 1.00% plus (ii) 0.50% or (B) the sum of (i) adjusted LIBOR plus (ii) 1.50%. Default interest is 2.00% per annum in excess of the rate otherwise applicable in the case of any overdue principal or any other overdue amount. The Company is also required to pay a commitment fee to the lenders under the Credit Agreement in respect of unutilized revolving loan commitments at a rate of 0.40% per annum.

The Company's existing and future domestic subsidiaries (other than any regulated subsidiary) have guaranteed the Company's obligations under the Credit Agreement. Subject to customary exceptions and exclusions, the Company's borrowings under the Credit Agreement are collateralized by first priority pledges (subject to permitted liens) of substantially all of the Company's personal property assets and the personal property assets of the Company's domestic subsidiaries that have guaranteed the Credit Agreement, including the equity interests of the Company's domestic subsidiaries and the equity interests of certain of the Company's foreign subsidiaries (limited, in the case of the voting equity interests of the foreign subsidiaries, to a pledge of 65% of those equity interests).

The Credit Agreement requires that the Company's consolidated total leverage ratio tested on the last day of each fiscal quarter not exceed 2.5 to 1.0 and a consolidated interest coverage ratio tested on the last day of each fiscal quarter not be less than 3.5 to 1.0. The Credit Agreement also requires that the Company's trailing twelve month adjusted EBITDA tested on the last day of each fiscal quarter not be less than \$80 million. The Company was in compliance with all applicable covenants at September 30, 2016 and December 31, 2015.

If an event of default occurs, including failure to pay principal or interest due on the loan balance, a voluntary or involuntary proceeding seeking liquidation, change in control of the Company, or one or more material judgments against the Company in excess of \$10.0 million, the lenders would be entitled to accelerate the borrowings under the Credit Agreement and take various other actions, including all actions permitted to be taken by a secured creditor. If certain bankruptcy events of default occur, the borrowings under the Credit Agreement will automatically accelerate.

10. Commitments and Contingencies

Lease Commitments

The Company leases office space under non-cancelable lease agreements expiring at various dates through 2033. Office space leases are subject to escalation based on certain costs incurred by the landlord. Minimum rental commitments as of September 30, 2016 under such operating leases were as follows (in thousands):

| | |
|---------------------|-----------|
| Remainder of 2016 | \$821 |
| 2017 | 4,497 |
| 2018 | 4,348 |
| 2019 | 9,256 |
| 2020 | 10,542 |
| 2021 and thereafter | 118,179 |
| | \$147,643 |

Rental expense was \$3.1 million and \$3.0 million for the nine months ended September 30, 2016 and 2015, respectively, and is included in occupancy expense in the Consolidated Statements of Operations. Rental expense has been recorded based on the total minimum lease payments after giving effect to rent abatement and concessions, which are being amortized on a straight-line basis over the life of the lease. The Company is contingently obligated for standby letters of credit amounting to \$0.9 million that were issued to landlords for office space.

During the three months ended September 30, 2016, the Company entered into non-cancelable lease agreements for approximately 108,000 square feet of office space that commence on or after December 1, 2016 and expire through December 31, 2033. The aggregate minimum rental commitment under such leases is \$127.4 million.

The Company has assigned a lease agreement on a leased property to a third party and is contingently liable should the assignee default on future lease obligations through the November 2020 lease termination date. The aggregate amount of the future lease obligation under this arrangement is \$1.1 million as of September 30, 2016.

Legal Matters

In the normal course of business, the Company and its subsidiaries included in the consolidated financial statements may be involved in various lawsuits, proceedings and regulatory examinations. The Company assesses its liabilities and contingencies in connection with outstanding legal proceedings, if any, utilizing the latest information available. For matters where it is probable that the Company will incur a material loss and the amount can be reasonably estimated, the Company would establish an accrual for the loss. Once established, the accrual would be adjusted to reflect any relevant developments. When a loss contingency is not both probable and estimable, the Company does not establish an accrual.

Based on currently available information, the outcome of the Company's outstanding matters is not expected to have a material adverse impact on the Company's financial position. It is not presently possible to determine the ultimate exposure to these matters and there is no assurance that the resolution of the outstanding matters will not significantly exceed any reserves accrued by the Company.

Other

The Company, through two regulated subsidiaries, executes certain bond transactions between and among institutional investor and broker-dealer clients on a matched principal basis by serving as counterparty to both the buyer and the seller in trades which settle through third-party clearing brokers. Settlement typically occurs within one to three trading days after the trade date. Cash settlement of the transaction occurs upon receipt or delivery of the underlying instrument that was traded. For the nine months ended September 30, 2016 and 2015, revenues from matched principal trading were approximately \$26.6 million and \$11.6 million, respectively. Under securities clearing agreements with third-party clearing brokers, the Company maintains collateral deposits with each clearing broker in the form of cash. As of September 30, 2016, the amount of the collateral deposits included in prepaid expenses and other assets in the Consolidated Statements of Financial Condition was \$1.1 million compared to \$1.5 million at December 31, 2015. For the nine months ended September 30, 2016 and 2015, clearing expenses associated with matched principal transactions were \$4.8 million and \$2.3 million, respectively, and are classified under general and administrative expense on the Consolidated Statements of Operations. The Company is exposed to credit risk in the event a counterparty does not fulfill its obligation to complete a transaction or if there is a miscommunication or other error in executing a matched principal transaction. Pursuant to the terms of the securities clearing agreements, the clearing broker has the right to charge the Company for losses resulting from a counterparty credit failure. The losses are not capped at a maximum amount and apply to all trades executed through the clearing broker. The Company did not record any liabilities or losses with regard to this right for the nine months ended September 30, 2016 and 2015.

In the normal course of business, the Company enters into contracts that contain a variety of representations, warranties and general indemnifications. The Company's maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Company that have not yet occurred. However, based on experience, the Company expects the risk of loss to be remote.

11. Customer Concentration

During both the nine months ended September 30, 2016 and 2015, no single client accounted for more than 10% of total revenue. One institutional investor client accounted for 14.6% and 15.5% of trading volumes during the nine months ended September 30, 2016 and 2015, respectively.

12. Share Repurchase Program

In January 2014, the Board of Directors of the Company authorized a two-year share repurchase program for up to \$35.0 million of the Company's common stock. In July 2014, the Board of Directors approved a \$65.0 million increase in the size of the share repurchase program. In January 2016, the Board of Directors authorized a new two-year share repurchase program for up to \$25.0 million of the Company's common stock. For the nine months ended September 30, 2015, the Company repurchased 238,201 shares of common stock at a cost of \$20.0 million. For the nine months ended September 30, 2016, the Company repurchased 93,516 shares

of common stock at a cost of \$13.9 million. In October 2016, the Board of Directors approved a \$50.0 million increase in the size of the current share repurchase program. Shares repurchased under each program will be held in treasury for future use.

13. Segment and Geographic Information

The Company operates an electronic multi-party platform for the trading of fixed-income securities and provides related data, analytics, compliance tools and post-trade services. The Company considers its operations to constitute a single business segment because of the highly integrated nature of these product and services, of the financial markets in which the Company competes and of the Company's worldwide business activities. The Company believes that results by geographic region or client sector are not necessarily meaningful in understanding its business.

For the three and nine months ended September 30, 2016 and 2015, the U.K. was the only individual foreign country in which the Company had a subsidiary that accounted for 10% or more of the total revenues or total long-lived assets of the Company. Revenues and long-lived assets are attributed to a geographic area based on the location of the particular subsidiary. Long-lived assets are defined as furniture, equipment, leasehold improvements and capitalized software. Information regarding revenue for the three and nine months ended September 30, 2016 and 2015 and long-lived assets as of September 30, 2016 and December 31, 2015 was as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|-----------------|--|-----------------|------------------------------------|------------------|
| | 2016 | 2015 | 2016 | 2015 |
| | (In thousands) | | | |
| Revenues | | | | |
| United States | \$77,571 | \$64,098 | \$235,078 | \$196,488 |
| United Kingdom | 12,433 | 9,830 | 39,165 | 29,094 |
| Other | 267 | 264 | 1,240 | 872 |
| Total | \$90,271 | \$74,192 | \$275,483 | \$226,454 |

| | As of | |
|--------------------------------------|------------------|-----------------|
| | September 30, | December 31, |
| | 2016 | 2015 |
| | (In thousands) | |
| Long-lived assets, as defined | | |
| United States | \$22,674 | \$21,968 |
| United Kingdom | 8,077 | 8,910 |
| Other | 22 | 19 |
| Total | \$30,773 | \$30,897 |

14. Deferred Compensation Plans

In 2015, the Company adopted a non-qualified deferred cash incentive plan for certain officers and other employees. Under the plan, eligible employees may defer up to 100% of their annual cash incentive pay. The Company has elected to fund its deferred compensation obligations through a rabbi trust. The rabbi trust is subject to creditor claims in the event of insolvency but such assets are not available for general corporate purposes. Assets held in the rabbi trust are invested in mutual funds, as selected by the participants, which are designated as trading securities and carried at fair value. The initial deferrals of \$1.2 million occurred in January 2016 and as of September 30, 2016; the fair value of the mutual fund investments was \$1.3 million. Changes in the fair value of securities held in the rabbi trust will be recognized as trading gains and losses and included in other revenues and offsetting increases or decreases in the deferred compensation obligation will be recorded in employee compensation and benefits. For the nine months ended September 30, 2016, the trading gains and compensation expense were each \$0.2 million.

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

Forward-Looking Statements

This report contains certain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements may be identified by words such as "expects," "intends," "anticipates," "plans," "believes," "seeks," "estimates," "will," or words of similar meaning and include, but are not limited to, statements regarding the outlook for our future business and financial performance. Forward-looking statements are based on management's current expectations and assumptions, which are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. It is routine for our internal projections and expectations to change as the year or each quarter in the year progresses, and therefore it should be clearly understood that the internal projections and beliefs upon which we base our expectations may change prior to the end of each quarter or the year. Although these expectations may change, we are under no obligation to revise or update any forward-looking statements contained in this report. Our company policy is generally to provide our expectations only once per quarter, and not to update that information until the next quarter. Actual future events or results may differ, perhaps materially from those contained in the projections or forward-looking statements. Factors that could cause or contribute to such differences include those discussed below and elsewhere in this report, particularly in the section captioned Part II, Item 1A, "Risk Factors."

Executive Overview

MarketAxess operates a leading electronic trading platform that enables fixed-income market participants to efficiently trade corporate bonds and other types of fixed-income instruments using our patented trading technology. Over 1,100 institutional investor and broker-dealer firms are active users of our trading platform, accessing global liquidity in U.S. high-grade corporate bonds, emerging markets and high-yield bonds, European bonds, U.S. agency bonds, municipal bonds, credit default swaps and other fixed-income securities. Through our Open Trading™ protocols, we execute trades in certain bonds between and among institutional investor and broker-dealer clients in an all-to-all trading environment on a matched principal basis. We also offer a number of trading-related products and services, including: market data to assist clients with trading decisions; connectivity solutions that facilitate straight-through processing; technology services to optimize trading environments; and execution services for exchange-traded fund managers and other clients. Through our Trax® division, we also offer a range of pre- and post-trade services, including trade matching, regulatory transaction reporting, and market and reference data across a range of fixed-income and other products.

Our platform's innovative technology solutions are designed to increase the number of potential trading counterparties on our electronic trading platform and create a menu of solutions to address different trade sizes and bond liquidity characteristics. Our traditional request-for-quote model allows our institutional investor clients to simultaneously request competing, executable bids or offers from our broker-dealer clients and execute trades with the broker-dealer of their choice from among those that choose to respond. Our Open Trading™ protocols complement our request-for-quote model by increasing the number of potential counterparties and improving liquidity by allowing all participants to interact anonymously in an all-to-all trading environment. Our platform also provides our broker-dealer clients a solution that enables them to efficiently reach our institutional investor clients for the distribution and trading of bonds.

The majority of our revenues are derived from commissions for trades executed on our platform and distribution fees that are billed to our broker-dealer clients on a monthly basis. We also derive revenues from information and post-trade services, technology products and services, investment income and other income. Our expenses consist of employee compensation and benefits, depreciation and amortization, technology and communication expenses, professional and consulting fees, occupancy, marketing and advertising and other general and administrative

expenses.

Our objective is to provide the leading global electronic trading platform for fixed-income securities, connecting broker-dealers and institutional investors more easily and efficiently, while offering a broad array of information, trading and technology services to market participants across the trading cycle. The key elements of our strategy are:

- to innovate and efficiently add new functionality and product offerings to the MarketAxess platform that we believe will help to increase our market share with existing clients, as well as to expand our client base;
- to leverage our existing client network and technology to increase the number of potential counterparties and improve liquidity by developing and deploying a wide range of electronic trading protocols to complement our traditional request-for-quote model and allowing broker-dealers and institutional investors to interact in our all-to-all Open TradingTM environment;
- to leverage our existing technology and client relationships to deploy our electronic trading platform into additional product segments within the fixed-income securities markets and deliver fixed-income securities-related technical services and products;

to continue building our existing service offerings so that our electronic trading platform is more fully integrated into the workflow of our broker-dealer and institutional investor clients and to continue to add functionality to allow our clients to achieve a fully automated end-to-end straight-through processing solution (automation from trade initiation to settlement);

to add new content and analytical capabilities to BondTicker™ and expand our Traxdata service offerings in order to improve the value of the information we provide to our clients; and

to continue to increase and supplement our internal growth by entering into strategic alliances, or acquiring businesses or technologies that will enable us to enter new markets, provide new products or services, or otherwise enhance the value of our platform to our clients. For example, the acquisition of Xtrakter Limited (“Xtrakter”) in February 2013 provided us with an expanded set of Trax® data and post-trade technology solutions ahead of incoming pre- and post-trade transparency mandates from the Markets in Financial Instruments Directive II (“MIFID II”) in Europe. In April 2013, we entered into a strategic alliance with BlackRock, Inc. (“Blackrock”) to create a unified, open trading solution designed to help reduce liquidity fragmentation and improve pricing across U.S. cash credit markets. In January 2015, we expanded this alliance with BlackRock to include European cash credit markets.

Critical Factors Affecting Our Industry and Our Company

Economic, Political and Market Factors

The global fixed-income securities industry is risky and volatile and is directly affected by a number of economic, political and market factors that may result in declining trading volume. These factors could have a material adverse effect on our business, financial condition and results of operations. These factors include, among others, credit market conditions, the current interest rate environment, including the volatility of interest rates and investors’ forecasts of future interest rates, economic and political conditions in the United States, Europe and elsewhere, and the consolidation or contraction of our broker-dealer clients.

Competitive Landscape

The global fixed-income securities industry generally, and the electronic financial services markets in which we engage in particular, are highly competitive, and we expect competition to intensify in the future. Sources of competition for us will continue to include, among others, bond trading conducted directly between broker-dealers and their institutional investor clients over the telephone or electronically and other multi-dealer or all-to-all trading platforms. Competitors, including companies in which some of our broker-dealer clients have invested, have developed or acquired electronic trading platforms or have announced their intention to explore the development of electronic platforms that may compete with us.

In general, we compete on the basis of a number of key factors, including, among others, the liquidity provided on our platform, the magnitude and frequency of price improvement enabled by our platform and the quality and speed of execution. We believe that our ability to grow volumes and revenues will largely depend on our performance with respect to these factors.

Our competitive position is also enhanced by the familiarity and integration of our broker-dealer and institutional investor clients with our electronic trading platform and other systems. We have focused on the unique aspects of the credit markets we serve in the development of our platform, working closely with our clients to provide a system that is suited to their needs.

Regulatory Environment

Our industry has been and is subject to continuous regulatory changes and may become subject to new regulations or changes in the interpretation or enforcement of existing regulations, which could require us to incur significant costs.

Following the global financial crisis and other recent events in the financial industry, governments and regulators in both the United States and Europe have called for increased regulation and transparency in the over-the-counter markets. As a result, the Dodd-Frank Act was signed into law in July 2010. Among the most significant requirements of the derivatives section of the Dodd-Frank Act are mandatory clearing of certain derivative instruments (“swaps”) through regulated central clearing organizations and mandatory trading of those instruments through either regulated exchanges or swap execution facilities (“SEFs”), in each case, subject to certain key exceptions. MarketAxess SEF Corporation, our wholly-owned U.S. subsidiary, operates as a SEF for the trading of certain credit derivatives subject to the CFTC’s jurisdiction, including certain index swaps subject to the CFTC’s ‘made available for trade’ determination that are required to be executed on a SEF or regulated exchange. The SEC has not yet finalized its rules for security-based SEFs, nor has it published a timetable for the finalization and implementation of such rules. No assurance can be given regarding when, whether or in what form the remaining rules regarding the new regulatory regime for the swaps marketplace will be finalized or implemented.

Various rules promulgated since the financial crisis could adversely affect our bank-affiliated broker-dealer clients' ability to make markets in a variety of fixed-income securities, thereby negatively impacting the level of liquidity and pricing available on our trading platform. For example, while the recently adopted Volcker Rule does not apply directly to us, the Volcker Rule bans proprietary trading by banks and their affiliates. In addition, enhanced leverage ratios applicable to large banking organizations in the U.S. and Europe require such organizations to strengthen their balance sheets and may limit their ability or willingness to make markets on our trading platform. We cannot predict the extent to which these rules or any future regulatory changes may adversely affect our business and operations.

Similar to the U.S., regulatory bodies in Europe are developing new rules for the fixed-income markets. MiFID II and Markets in Financial Instruments Regulation ("MiFIR") were approved in June 2014 and introduce changes in market structure designed to: (i) enhance pre- and post-trade transparency for fixed income instruments with the scope of such requirements calibrated according to the liquidity of an instrument, (ii) increase and enhance post-trade reporting obligations with a requirement to submit post-trade data to Approved Reporting Mechanisms, (iii) ensure trading of certain derivatives occurs on regulated trading venues and (iv) establish a consolidated tape for trade data. While some of the rules and technical advice underpinning MiFID II have not yet been finalized, MiFID II will have a significant impact in these areas, as well as on corporate governance and investor protection. MiFID II and MiFIR are expected to take effect in January 2018. The final rules may have an adverse effect on our operations or our ability to provide our electronic trading platform in Europe in a manner that can successfully compete against other types of regulated and non-regulated venues for the fixed-income trading needs of our clients. In addition, MiFID II is expected to cause us to expend more significant compliance, business and technology resources, incur additional operational costs and create additional regulatory exposure for our trading and post-trade businesses. While we generally believe the net impact of the rules and regulations may be positive for our businesses, unintended consequences of the rules and regulations may adversely affect us in ways yet to be determined.

The U.K. has voted in an advisory referendum to leave the European Union (commonly referred to as "Brexit"). The follow-up to the referendum is not yet clear as the U.K. government has not yet delivered an official notice of withdrawal, but it may significantly affect the fiscal, monetary and regulatory landscape in the U.K., and could have a material impact on its economy and the future growth of its various industries, including the financial services industry. Depending on the terms negotiated between E.U. member states and the U.K. following Brexit, our U.K. subsidiaries may not be able to rely on the existence of a "passporting" regime that allows immediate access to the single E.U. market and we may need to establish one or more new regulated subsidiaries in the E.U. in order to provide our trading platform and certain post-trade services to clients in the E.U. Although it is not possible at this point in time to predict fully the effects of an exit of the U.K. from the E.U., it could have a material adverse effect on our business, financial condition and results of operations. In addition, it may impact our ability to comply with the extensive government regulation to which we are subject.

Rapid Technological Changes

We must continue to enhance and improve our electronic trading platform. The electronic financial services industry is characterized by increasingly complex systems and infrastructures and new business models. Our future success will depend on our ability to enhance our existing products and services, develop and/or license new products and technologies that address the increasingly sophisticated and varied needs of our existing and prospective broker-dealer and institutional investor clients and respond to technological advances and emerging industry standards and practices on a cost-effective and timely basis. We have been issued 13 patents covering our most significant trading protocols and other aspects of our trading system technology.

Trends in Our Business

The majority of our revenues are derived from commissions for transactions executed on our platform between and among our institutional investor and broker-dealer clients and monthly distribution fees. We believe that there are five key variables that impact the notional value of such transactions on our platform and the amount of commissions and distribution fees earned by us:

- the number of participants on our platform and their willingness to originate transactions through the platform;
- the number of institutional investor and broker-dealer clients on the platform and the frequency and competitiveness of the price responses they provide on our platform;
- the number of markets for which we make trading available to our clients;
- the overall level of activity in these markets; and
- the level of commissions that we collect for trades executed through the platform.

We believe that overall corporate bond market trading volume is affected by various factors including the absolute levels of interest rates, the direction of interest rate movements, the level of new issues of corporate bonds and the volatility of corporate bond spreads versus U.S. Treasury securities. Because a significant percentage of our revenue is tied directly to the volume of securities traded on our platform, it is likely that a general decline in trading volumes, regardless of the cause of such decline, would reduce our revenues and have a significant negative impact on profitability.

Commission Revenue

Commissions are generally calculated as a percentage of the notional dollar volume of bonds traded on our platform and vary based on the type, size, yield and maturity of the bond traded. Under our 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.

U.S. High-Grade Corporate Bond Commissions. Our U.S. high-grade corporate bond fee plans generally incorporate variable transaction fees and distribution fees billed to our broker-dealer clients on a monthly basis. Certain dealers participate in fee programs that do not contain monthly distribution fees and instead incorporate additional per transaction execution fees and minimum monthly fee commitments. Under these fee plans, we electronically add the transaction fee to the spread quoted by the broker-dealer client. The U.S. high-grade transaction fee is generally designated in basis points in yield and, as a result, is subject to fluctuation depending on the duration of the bond traded. The average U.S. high-grade fees per million may vary in the future due to changes in yield, years-to-maturity and nominal size of bonds traded on our platform.

Other Credit Commissions. Other credit includes emerging markets bonds, high-yield bonds, Eurobonds, municipal bonds and structured products bonds. Commissions for other credit products generally vary based on the type of the instrument traded using standard fee schedules. Similar to the U.S. high-grade plans, our European fee plans generally incorporate monthly distribution fees, as well as variable transaction fees. The average other credit fees per million may vary in the future due to changes in product mix or trading protocols.

Liquid Products Commissions. Liquid products includes U.S. agency, European government bonds and credit derivatives. Commissions for liquid products generally vary based on the type of the instrument traded using standard fee schedules.

For trades that we execute between and among institutional investor and broker-dealer clients on a matched principal basis by serving as counterparty to both the buyer and the seller, we earn our commission through the difference in price between the two trades. Distribution fees include any unused monthly fee commitments under our variable fee plans.

We anticipate that average fees per million may change in the future. Consequently, past trends in commissions are not necessarily indicative of future commissions.

Other Revenue

In addition to the commissions discussed above, we earn revenue from information and post-trade services, investment income and other income.

Information and post-trade services. We generate 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 deferred and recognized monthly on a straight-line basis. We also generate revenue from trade matching and regulatory transaction reporting services. Revenue is recognized in the period the services are provided.

Investment Income. Investment income consists of income earned on our investments.

Other. Other revenues include revenue from professional consulting services, technology software licenses and maintenance and support services, fees from telecommunications line charges to broker-dealer clients, initial set-up fees and other miscellaneous revenues.

Expenses

In the normal course of business, we incur the following expenses:

Employee Compensation and Benefits. Employee compensation and benefits is our most significant expense and includes employee salaries, stock-based compensation costs, other incentive compensation, employee benefits and payroll taxes.

Depreciation and Amortization. We depreciate our computer hardware and related software, office hardware and furniture and fixtures and amortize our capitalized software development costs on a straight-line basis over three to seven years. We amortize leasehold improvements on a straight-line basis over the lesser of the life of the improvement or the remaining term of the lease. Intangible assets with definite lives, including purchased technologies, customer relationships and other intangible assets, are amortized over their estimated useful lives, ranging from three to 15 years. Intangible assets are assessed for impairment when events or circumstances indicate a possible impairment.

Technology and Communications. Technology and communications expense consists primarily of costs relating to maintenance on software and hardware, our internal network connections, data center hosting costs and data feeds provided by outside vendors or service providers. The majority of our broker-dealer clients have dedicated high-speed communication lines to our network in order to provide fast data transfer. We charge our broker-dealer clients a monthly fee for these connections, which is recovered against the relevant expenses we incur.

Professional and Consulting Fees. Professional and consulting fees consist primarily of accounting fees, legal fees and fees paid to information technology and other consultants for services provided for the maintenance of our trading platform, information and post-trade services products and other services.

Occupancy. Occupancy costs consist primarily of office and equipment rent, utilities and commercial rent tax.

Marketing and Advertising. Marketing and advertising expense consists primarily of print and other advertising expenses we incur to promote our products and services. This expense also includes costs associated with attending or exhibiting at industry-sponsored seminars, conferences and conventions, and travel and entertainment expenses incurred by our sales force to promote our trading platform and information and post-trade services.

General and Administrative. General and administrative expense consists primarily of general travel and entertainment, clearing costs from matched principal trades, board of directors' expenses, charitable contributions, provision for doubtful accounts, and various state franchise and U.K. value-added taxes.

Expenses may grow in the future, notably in employee compensation and benefits, primarily due to investment in new products and geographic expansion. However, we believe that operating leverage can be achieved by increasing volumes in existing products and adding new products without substantial additions to our infrastructure.

Critical Accounting Policies and Estimates

This Management's Discussion and Analysis of Financial Condition and Results of Operations discusses our Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States, also referred to as U.S. GAAP. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of income and expenses during the reporting periods. We base our estimates and judgments on historical experience and on various other factors that we believe are reasonable under the circumstances. Actual

results may differ from these estimates under varying assumptions or conditions. Note 2 of the Notes to our Consolidated Financial Statements includes a summary of the significant accounting policies and methods used in the preparation of our Consolidated Financial Statements. There were no significant changes to our critical accounting policies and estimates during the nine months ended September 30, 2016, as compared to those we disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2015.

Recent Accounting Pronouncements

See Note 2 to the Consolidated Financial Statements for a discussion on recent accounting pronouncements.

Segment Results

We operate an electronic multi-party platform for the trading of fixed-income securities and provide related data, analytics, compliance tools and post-trade services. We consider our operations to constitute a single business segment because of the highly integrated nature of these product and services, of the financial markets in which we compete and of our worldwide business activities. We believe that results by geographic region or client sector are not necessarily meaningful in understanding our business. See Note 13 to the Consolidated Financial Statements for certain geographic information about the Company's business required by U.S. GAAP.

Results of Operations

Three Months Ended September 30, 2016 Compared to Three Months Ended September 30, 2015

Overview

Total revenues increased by \$16.1 million or 21.7% to \$90.3 million for the three months ended September 30, 2016, from \$74.2 million for the three months ended September 30, 2015. This increase in total revenues was primarily due to higher commissions of \$16.3 million. A 15.2% change in the average foreign currency exchange rates of the Pound Sterling compared to the U.S. dollar from the three months ended September 30, 2015 to the three months ended September 30, 2016 had the effect of decreasing revenues by \$2.2 million.

Total expenses increased by \$5.1 million or 13.1% to \$43.9 million for the three months ended September 30, 2016, from \$38.8 million for the three months ended September 30, 2015. This increase was primarily due to higher employee compensation and benefits of \$2.9 million, higher professional and consulting fees of \$1.1 million, and higher marketing and advertising expenses of \$0.8 million. The change in average foreign currency exchange rates had the effect of decreasing expenses by \$2.1 million in the three months ended September 30, 2016.

Income before taxes increased by \$11.0 million or 31.1% to \$46.4 million for the three months ended September 30, 2016, from \$35.4 million for the three months ended September 30, 2015. Net income increased by \$8.2 million or 36.1% to \$30.9 million for the three months ended September 30, 2016, from \$22.7 million for three months ended September 30, 2015.

Revenues

Our revenues for the three months ended September 30, 2016 and 2015, and the resulting dollar and percentage changes, were as follows:

| | Three Months Ended September 30, 2016 | | 2015 | | \$ Change | % Change | |
|-------------------------------------|--|------------------|------------|------------------|--------------|-------------|---|
| | \$ | % of Revenues | \$ | % of Revenues | | | |
| | (\$ in thousands) | | | | | | |
| Commissions | \$81,456 | 90.2 | % \$65,178 | 87.9 | % \$16,278 | 25.0 | % |
| Information and post-trade services | 7,322 | 8.1 | 7,671 | 10.3 | (349) | (4.5) | |
| Investment income | 534 | 0.6 | 248 | 0.3 | 286 | 115.3 | |
| Other | 959 | 1.1 | 1,095 | 1.5 | (136) | (12.4) | |
| Total revenues | \$90,271 | 100.0 | % \$74,192 | 100.0 | % \$16,079 | 21.7 | % |

Commissions. Our commission revenues for the three months ended September 30, 2016 and 2015, and the resulting dollar and percentage changes, were as follows:

| | Three Months Ended September 30, | | | |
|---------------------------------|----------------------------------|----------|-----------|----------|
| | 2016 | 2015 | \$ Change | % Change |
| | (\$ in thousands) | | | |
| Variable transaction fees | | | | |
| U.S. high-grade | \$33,765 | \$23,337 | \$10,428 | 44.7 % |
| Other credit | 30,181 | 24,091 | 6,090 | 25.3 |
| Liquid products | 798 | 598 | 200 | 33.4 |
| Total variable transaction fees | 64,744 | 48,026 | 16,718 | 34.8 |
| Distribution fees | | | | |
| U.S. high-grade | 15,077 | 15,376 | (299) | (1.9) |
| Other credit | 1,466 | 1,487 | (21) | (1.4) |
| Liquid products | 169 | 289 | (120) | (41.5) |
| Total distribution fees | 16,712 | 17,152 | (440) | (2.6) |
| Total commissions | \$81,456 | \$65,178 | \$16,278 | 25.0 % |

Variable Transaction Fees

The following table shows the extent to which the increase in variable transaction fees for the three months ended September 30, 2016 was attributable to changes in transaction volumes and variable transaction fees per million:

| | Change from the Three Months Ended September 30, 2015 | | | |
|--|---|--------------|-----------------|----------|
| | U.S. High-Grade | Other Credit | Liquid Products | Total |
| | (In thousands) | | | |
| Volume increase | \$6,401 | \$10,995 | \$ 215 | \$17,611 |
| Variable transaction fee per million increase (decrease) | 4,027 | (4,905) | (15) | (893) |
| Total commissions increase | \$10,428 | \$6,090 | \$ 200 | \$16,718 |

Our trading volumes for the three months ended September 30, 2016 and 2015 were as follows:

| | Three Months Ended September 30, | | | |
|-----------------------------------|----------------------------------|-----------|-----------|----------|
| | 2016 | 2015 | \$ Change | % Change |
| Trading Volume Data (in millions) | | | | |
| U.S. high-grade - fixed rate | \$172,006 | \$132,625 | \$39,381 | 29.7 % |
| U.S. high-grade - floating rate | 6,442 | 7,414 | (972) | (13.1) |
| Total U.S. high-grade | 178,448 | 140,039 | 38,409 | 27.4 |
| Other credit | 122,821 | 84,333 | 38,488 | 45.6 |
| Liquid products | 20,880 | 15,353 | 5,527 | 36.0 |
| Total | \$322,149 | \$239,725 | \$82,424 | 34.4 % |

| | | |
|-----------------------------|----|----|
| Number of U.S. Trading Days | 64 | 64 |
| Number of U.K. Trading Days | 65 | 65 |

For volume reporting purposes, transactions in foreign currencies are converted to U.S. dollars at average monthly rates. The 27.4% increase in our U.S. high-grade volume was principally due to an increase in our estimated market share of adjusted total U.S. high-grade corporate bond volume as reported by Financial Industry Regulatory Authority (“FINRA”) Trade Reporting and Compliance Engine (“TRACE”) from 14.9% for the three months ended September 30, 2015 to 16.0% for the three months ended September 30, 2016, coupled with an increase in overall market volume as measured by TRACE. We adjusted the reported U.S. high-grade TRACE volumes to eliminate the increased reporting of affiliate back-to-back trades by certain broker-dealers that occurred from April 2014 through October 2015. Adjusted U.S. high-grade TRACE volume increased 18.7% to \$1.1 trillion for the three

months ended September 30, 2016 from \$0.9 trillion for the three months ended September 30, 2015. Based on information provided by FINRA, we believe that the TRACE volumes, as adjusted by us, provide a more accurate comparison to prior period reporting. We have provided a reconciliation of the reported U.S. high-grade TRACE volumes to the adjusted U.S. high-grade TRACE volumes in the “Investor Relations” section of our website.

Other credit volumes increased by 45.6% for the three months ended September 30, 2016 compared to the three months ended September 30, 2015, primarily due to increases of 61% in emerging markets bond volume, 54% in Eurobond volume and 19% in high-yield bond volume. Liquid products volume (excluding credit derivatives) increased by 36.0% for the three months ended September 30, 2016 compared to the three months ended September 30, 2015 due mainly to a 27.2% increase in estimated U.S. agency bond market volume as reported by TRACE.

Our average variable transaction fee per million for the three months ended September 30, 2016 and 2015 was as follows:

| | Three Months Ended September 30, 2016 2015 | |
|--|---|--------|
| Average Variable Transaction fee per million | | |
| U.S. high-grade - fixed rate | \$ 195 | \$ 174 |
| U.S. high-grade - floating rate | 38 | 37 |
| Total U.S. high-grade | 189 | 167 |
| Other credit | 246 | 286 |
| Liquid products | 38 | 39 |
| Total | 201 | 200 |

Total U.S. high-grade average variable transaction fee per million increased to \$189 per million for the three months ended September 30, 2016 from \$167 per million for the three months ended September 30, 2015 principally as a result of an increase in the duration of bonds traded. Other credit average variable transaction fee per million decreased to \$246 per million for the three months ended September 30, 2016 from \$286 per million for the three months ended September 30, 2015 due to a larger percentage of volume in products, principally emerging market bonds, and high-yield protocols that carry lower fees per million.

Distribution Fees

U.S. high-grade distribution fees decreased \$0.4 million principally due to a decrease in unused monthly fee commitments under our all-variable fee plan.

Information and Post-Trade Services. Information and post-trade services revenues decreased by \$0.3 million principally due to the unfavorable impact of foreign currency exchange rate changes of \$1.0 million offset by higher data revenue of \$0.7 million. Transaction reporting revenue was consistent year over year as an increase in the number of transactions processed to 302 million for the three months ended September 30, 2016 from 255 million for the three months ended September 30, 2015 was offset by a reduction in the transaction reporting fee capture rate.

Investment Income. Investment income increased by \$0.3 million primarily due to a higher investment balance in 2016.

Other. Other income decreased by \$0.1 million principally due to unrealized losses on trading security investments.

Expenses

Our expenses for the three months ended September 30, 2016 and 2015, and the resulting dollar and percentage changes were as follows:

| | Three Months Ended September 30, | | | | \$ | % |
|------------------------------------|----------------------------------|----------|----------|----------|---------|--------|
| | 2016 | 2015 | | | | |
| | | % of | | % of | Change | Change |
| | \$ | Revenues | \$ | Revenues | | |
| | (\$ in thousands) | | | | | |
| Expenses | | | | | | |
| Employee compensation and benefits | \$23,914 | 26.5 % | \$21,002 | 28.3 % | \$2,912 | 13.9 % |
| Depreciation and amortization | 4,325 | 4.8 | 4,642 | 6.3 | (317) | (6.8) |