MARKETAXESS HOLDINGS INC
Form 10-Q
October 24, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

R QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2014

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)	52-2230784 (IRS Employer Identification No.)
299 Park Avenue, 10th Floor New York, New York (Address of principal executive offices)	10171 (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 R No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes R 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 R	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 R

As of October 23, 2014, the number of shares of the Registrant's voting common stock outstanding was 37,378,415.

MARKETAXESS HOLDINGS INC.

FORM 10-Q FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2014

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Item 1. Financial Statements

MARKETAXESS HOLDINGS INC.

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(Unaudited)

	As of September 30, 2014	December 31, 2013
	(In thousands, except share and per share amounts)	
ASSETS		
Cash and cash equivalents	$155,100	$132,691
Securities available-for-sale, at fair value	57,021	67,742
Accounts receivable, net of allowance of $83 and $133 as of September 30, 2014 and December 31, 2013, respectively	36,947	34,158
Goodwill and intangible assets, net of accumulated amortization	66,989	68,697
Furniture, equipment, leasehold improvements and capitalized software, net of accumulated depreciation and amortization	32,800	32,703
Prepaid expenses and other assets	8,800	10,640
Deferred tax assets, net	5,252	7,279
Total assets	$362,909	$353,910
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Accrued employee compensation	$18,384	$24,001
Income and other tax liabilities	3,668	3,975
Deferred revenue	3,271	2,713
Accounts payable, accrued expenses and other liabilities	11,283	12,859
Total liabilities	36,606	43,548
Commitments and Contingencies (Note 11)	—	—
Stockholders' equity		
Preferred stock, $0.001 par value, 4,855,000 shares authorized, no shares issued and outstanding as of September 30, 2014 and December 31, 2013	—	—

Series A Preferred Stock, $0.001 par value, 110,000 shares authorized, no shares issued and outstanding as of September 30, 2014 and December 31, 2013	—	—
Common stock voting, $0.003 par value, 110,000,000 shares authorized, 39,378,759 shares and 39,224,016 shares issued and 37,429,415 shares and 37,728,857 shares outstanding as of September 30, 2014 and December 31, 2013, respectively	120	119
Common stock non-voting, $0.003 par value, 10,000,000 shares authorized, no shares issued and outstanding as of September 30, 2014 and December 31, 2013	—	—
Additional paid-in capital	302,320	295,557
Treasury stock - Common stock voting, at cost, 1,949,344 and 1,495,159 shares as of September 30, 2014 and December 31, 2013, respectively	(57,715)	(32,273)
Retained earnings	86,158	51,042
Accumulated other comprehensive loss	(4,580)	(4,083)
Total stockholders' equity	326,303	310,362
Total liabilities and stockholders' equity	$362,909	$353,910

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

MARKETAXESS HOLDINGS INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In thousands, except per share amounts)			
Revenues				
Commissions	$54,462	$51,818	$160,766	$153,202
Information and post-trade services	7,600	7,125	23,641	18,020
Technology products and services	1,562	1,561	5,585	4,279
Investment income	132	112	416	288
Other	489	517	2,199	2,502
Total revenues	64,245	61,133	192,607	178,291
Expenses				
Employee compensation and benefits	18,589	17,910	55,619	47,638
Depreciation and amortization	4,482	3,460	12,954	10,151
Technology and communications	4,359	4,509	13,300	11,700
Professional and consulting fees	3,514	4,540	10,912	13,278
Occupancy	1,127	1,205	3,318	3,172
Marketing and advertising	1,331	1,195	4,340	3,501
General and administrative	2,575	1,926	7,117	6,370
Total expenses	35,977	34,745	107,560	95,810
Income before income taxes from continuing operations	28,268	26,388	85,047	82,481
Provision for income taxes	10,764	8,129	31,877	29,388
Net income from continuing operations	17,504	18,259	53,170	53,093
(Loss) from discontinued operations, net of income taxes	—	(46)	—	(210)
Net income	$17,504	$18,213	$53,170	$52,883
Basic earnings per common share				
Income from continuing operations	$0.47	$0.49	$1.44	$1.44
(Loss) from discontinued operations	—	—	—	(0.01)
Net income per common share	$0.47	$0.49	$1.44	$1.43
Diluted earnings per common share				
Income from continuing operations	$0.46	$0.48	$1.40	$1.41
(Loss) from discontinued operations	—	—	—	(0.01)
Net income per common share	$0.46	$0.48	$1.40	$1.40
Cash dividends declared per common share	$0.16	$0.13	$0.48	$0.39
Weighted average shares outstanding				

Basic	36,856	36,919	36,997	36,854
Diluted	37,805	37,965	37,947	37,820

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,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In thousands)			
Net income	$17,504	$18,213	$53,170	$52,883
Net cumulative translation adjustment and foreign currency exchange hedge, net of tax of $(96), $(242), $(334) and ($215), respectively	(111)	(384)	(492)	(341)
Net unrealized (loss) gain on securities available-for-sale, net of tax of $(16), $11, $16 and $(14), respectively	(27)	18	30	(23)
Less: reclassification adjustment for realized gain from securities available-for-sale included in Other Income, net of tax of $(7), $0, $(19) and $(299), respectively	(12)	—	(35)	(474)
Net change in unrealized (loss) gain on securities available-for-sale, net of tax	(39)	18	(5)	(497)
Comprehensive Income	$17,354	$17,847	$52,673	$52,045

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

MARKETAXESS HOLDINGS INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(Unaudited)

	Common Stock Voting	Additional Paid-In Capital	Treasury Stock - Common Stock Voting	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	(In thousands)					
Balance at December 31, 2013	$119	$295,557	$(32,273)	$51,042	$(4,083)	$310,362
Net income	—	—	—	53,170	—	53,170
Cumulative translation adjustment and foreign currency exchange hedge, net of tax	—	—	—	—	(492)	(492)
Unrealized net loss on securities available-for-sale, net of tax	—	—	—	—	(5)	(5)
Stock-based compensation	—	7,179	—	—	—	7,179
Exercise of stock options	1	1,389	—	—	—	1,390
Withholding tax payments on restricted stock vesting and stock option exercises	—	(5,008)	—	—	—	(5,008)
Excess tax benefits from stock-based compensation	—	3,203	—	—	—	3,203
Repurchases of common stock	—	—	(25,442)	—	—	(25,442)
Cash dividend on common stock	—	—	—	(18,054)	—	(18,054)
Balance at September 30, 2014	$120	$302,320	$(57,715)	$86,158	$(4,580)	$326,303

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,	
	2014	2013
	(In thousands)	
Cash flows from operating activities		
Net income	$53,170	$52,883
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	12,954	9,305
Stock-based compensation expense	7,179	6,419
Deferred taxes	1,575	669
Other	1,482	(677)
Changes in operating assets and liabilities:		
(Increase) in accounts receivable	(2,321)	(4,770)
Decrease in prepaid expenses and other assets	1,245	1,856
(Decrease) in accrued employee compensation	(5,617)	(494)
(Decrease) increase in income and other tax liabilities	(110)	2,270
Increase (decrease) in deferred revenue	558	(1,065)
(Decrease) increase in accounts payable, accrued expenses and other liabilities	(1,526)	933
Net cash provided by operating activities	68,589	67,329
Cash flows from investing activities		
Acquisition of business, net of cash acquired	—	(37,827)
Securities available-for-sale:		
Proceeds from sales	—	30,900
Proceeds from maturities	13,536	10,690
Purchases	(4,181)	(49,578)
Purchases of furniture, equipment and leasehold improvements	(4,002)	(9,357)
Capitalization of software development costs	(7,412)	(5,406)
Other	595	4
Net cash (used in) investing activities	(1,464)	(60,574)
Cash flows from financing activities		
Cash dividend on common stock	(18,062)	(15,028)
Exercise of stock options	1,390	1,816
Withholding tax payments on restricted stock vesting and stock option exercises	(5,008)	(5,001)
Excess tax benefits from stock-based compensation	3,203	3,069
Repurchases of common stock	(25,442)	—

Other	(42)	(239)
Net cash (used in) financing activities	(43,961)	(15,383)
Effect of exchange rate changes on cash and cash equivalents	(755)	(615)
Cash and cash equivalents		
Net increase (decrease) for the period	22,409	(9,243)
Beginning of period	132,691	128,908
End of period	155,100	119,665
Less: Cash classified within assets from discontinued operations	—	656
End of period cash from continuing operations	$155,100	$119,009
Supplemental cash flow information:		
Cash paid during the year		
Cash paid for income taxes	$25,952	$17,894
Non-cash investing and financing activity:		
Liabilities assumed in connection with the Xtrakter acquisition:		
Fair value of assets acquired		$44,745
Cash paid for the capital stock		(37,827)
Liabilities assumed		$6,918

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

MARKETAXESS HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Organization and Principal Business Activity

MarketAxess Holdings Inc. (the "Company" or "MarketAxess") was incorporated in the State of Delaware on April 11, 2000. Through its subsidiaries, the Company operates an electronic trading platform for corporate bonds and other types of fixed-income instruments through which the Company's institutional investor clients can access liquidity provided by its broker-dealer and other institutional clients. The Company's multi-dealer trading platform allows its institutional investor clients to simultaneously request competitive, executable bids or offers from multiple broker-dealers, and to execute trades with the broker-dealer of their choice. The Company's trading platform provides access to global liquidity in U.S. high-grade corporate bonds, emerging markets and high-yield bonds, European bonds, U.S. agency bonds, credit default swaps and other fixed-income securities. The Company also executes certain bond transactions between and among institutional investor and broker-dealer clients on a matched principal (often called "riskless principal") basis by serving as counterparty to both the buyer and the seller in trades which then settle through a third-party clearing broker. The Company provides fixed-income market data, analytics and compliance tools that help its clients make trading decisions. The Company also provides trade matching and regulatory transaction reporting services to the securities markets. In addition, the Company provides technology solutions and professional consulting services to fixed-income industry participants.

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, 2013. The consolidated financial information as of December 31, 2013 has been derived from audited financial statements not included herein.

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

Cash and Cash Equivalents

Cash and cash equivalents includes cash and money market instruments that are primarily maintained at one major global bank. Given this concentration, the Company is exposed to certain credit risk 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.

Securities Available-for-Sale

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

The Company assesses whether an other-than-temporary impairment loss on the investments has occurred due to declines in fair value or other market conditions. The portion of an other-than-temporary impairment related to credit loss is recorded as a charge in the Consolidated Statements of Operations. The remainder is recognized in accumulated other comprehensive loss if the Company does not intend to sell the security and it is more likely than not that the Company will not be required to sell the security prior to recovery. No charges for other-than-temporary losses were recorded during the nine months ended September 30, 2014 and 2013.

Fair Value Financial Instruments

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

Allowance for Doubtful Accounts

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

Depreciation and Amortization

Fixed assets are carried at cost less accumulated depreciation. The Company uses the straight-line method of depreciation over three to seven years. 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 clearance accounts. Cash provided as collateral is included in prepaid expenses and other assets in the Consolidated Statements of Financial Condition.

Foreign Currency Translation and Forward Contracts

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

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

Revenue Recognition

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

Commission revenue. Commissions are generally calculated as a percentage of the notional dollar volume of bonds traded on the platform and vary based on the type and maturity of the bond traded. Under the Company's transaction fee plans, bonds that are more actively traded or that have shorter maturities are generally charged lower commissions, while bonds that are less actively traded or that have longer maturities generally command higher commissions. For trades that the Company executes between and among institutional investor and broker-dealer clients on a 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 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 (referred to as post-contract technical support or "PCS"). Revenue is generally recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable and collection is considered probable.

The Company enters into time and materials professional consulting contracts unrelated to any software product. Revenue for time and materials contracts is recognized as services are performed. The Company generally sells software license subscriptions on a stand-alone basis or software licenses and PCS together as part of multiple-element arrangements. Revenue for software license subscriptions is recognized ratably over the contract period. For arrangements that include multiple elements, generally software licenses and PCS, the Company allocates and defers revenue for the undelivered items based on vendor specific objective evidence ("VSOE") of the fair value of the undelivered elements and recognizes the difference between the total arrangement fee and the amount deferred for the undelivered items as license revenue. When VSOE does not exist for undelivered items, the entire arrangement fee is recognized ratably over the performance period. For PCS, the term is typically one year and revenue is recognized over the duration of the arrangement on a straight-line basis.

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

Stock-Based Compensation

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

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 U.S. generally accepted accounting principles ("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 Adjustment

During the second quarter of 2013, the Company determined that it had incorrectly excluded incentive compensation as a component of employee compensation eligible for capitalization under its software development costs capitalization policy. The Company assessed this error and determined that it was not material to previous reporting periods and was not material to the year ended December 31, 2013. Therefore, the Company recorded this item as an out-of-period adjustment in the three months ended June 30, 2013 by reducing employee compensation and benefits expense by $2.9 million and increasing depreciation and amortization expense by $1.3 million in the Consolidated Statements of Operations and increasing the net book value of capitalized software by $1.6 million in the Consolidated Statements of Financial Condition. This item was reflected as a non-cash adjustment in the Consolidated Statements of Cash Flows for 2013.

Reclassifications

Certain reclassifications have been made to the prior year's Consolidated Financial Statements in order to conform to the current year presentation. Such reclassifications had no effect on previously reported net income. Specifically, the Company reclassified $2.3 million from deferred tax assets to income and other tax liabilities as of December 31, 2013. Management has determined that the impact of this reclassification was not material to the previously issued Consolidated Financial Statements.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers", which will replace most of the existing revenue recognition guidance in

GAAP. The core principle of the ASU 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 ASU requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments. The ASU will be effective for the Company beginning January 1, 2017 and allows for both retrospective and prospective methods of adoption. The Company is in the process of determining the method of adoption and assessing the impact of this ASU 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, 2014, 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, 2014, the

Company's subsidiaries maintained aggregate net capital and financial resources that was $77.8 million in excess of the required levels of $12.1 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
As of September 30, 2014	(In thousands)			
Money market funds	$80,663	$—	$ —	$80,663
Securities available-for-sale				
Municipal securities	—	13,876	—	13,876
Corporate bonds	—	43,145	—	43,145
Foreign currency forward position	—	177	—	177
	$80,663	$57,198	$ —	$137,861
As of December 31, 2013				
Money market funds	$90,536	$—	$ —	$90,536
Securities available-for-sale				
Municipal securities	—	16,052	—	16,052
Corporate bonds	—	51,690	—	51,690
Foreign currency forward position	—	(472)	—	(472)
	$90,536	$67,270	$ —	$157,806

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. There were no financial assets classified within Level 3 during the nine months ended September 30, 2014 and 2013.

The Company enters into foreign currency forward contracts to hedge the exposure to variability in certain foreign currency cash flows resulting from 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 accounts receivable and the fair value of the liability is included in accounts payable in the Consolidated Statements of Financial Condition. Gains or losses on foreign currency forward contracts designated as hedges are included in accumulated other comprehensive loss in the

Consolidated Statements of Financial Condition. A summary of the foreign currency forward position is as follows:

	As of September 30, 2014	December 31, 2013
	(In thousands)	
Notional value	$30,730	$ 29,431
Fair value of notional	30,553	29,903
Fair value of the asset (liability)	$177	$ (472)

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

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
	(In thousands)			
As of September 30, 2014				
Municipal securities	$13,868	$ 9	$ (1)	$ 13,876
Corporate bonds	43,047	98	—	43,145
Total securities available-for-sale	$56,915	$ 107	$ (1)	$ 57,021
As of December 31, 2013				
Municipal securities	$16,049	$ 9	$ (6)	$ 16,052
Corporate bonds	51,579	124	(13)	51,690
Total securities available-for-sale	$67,628	$ 133	$ (19)	$ 67,742

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

	As of September 30, 2014	December 31, 2013
	(In thousands)	
Less than one year	$29,720	$ 12,332
Due in 1 - 5 years	27,301	55,410
Total securities available-for-sale	$57,021	$ 67,742

Proceeds from the sales and maturities of securities available-for-sale during the nine months ended September 30, 2014 and 2013 were $13.5 million and $41.6 million, respectively.

The following table provides fair values and unrealized losses on securities available-for-sale and by the aging of the securities' continuous unrealized loss position as of September 30, 2014 and December 31, 2013:

	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, 2014						
Municipal securities	$1,504	$ (1)	$ —	$ —	$1,504	$ (1)

Corporate bonds	—	—	—	—	—	—
Total	$1,504	$ (1)	$ —	$ —	$1,504	$ (1)
As of December 31, 2013						
Municipal securities	$4,955	$ (6)	$ —	$ —	$4,955	$ (6)
Corporate bonds	10,728	(13)	—	—	10,728	(13)
Total	$15,683	$ (19)	$ —	$ —	$15,683	$ (19)

5. Acquisition

In February 2013, the Company acquired all of the outstanding shares of Xtrakter Limited (“Xtrakter”) from Euroclear S.A./N.V. Xtrakter is a U.K.-based provider of trade matching and regulatory transaction reporting for European securities and market and reference data across a range of fixed-income products. The acquisition of Xtrakter provides the Company with an expanded set of technology solutions ahead of incoming pre-and post-trade transparency mandates from the Markets in Financial Instruments Directive II (“MiFID II”) in Europe. The aggregate purchase price was $37.8 million in cash, net of acquired cash.

The Company has completed its allocation of the purchase price to the fair value of assets acquired and liabilities assumed at the date of acquisition. The purchase price allocation is as follows (in thousands):

Purchase price	$46,683
Less: acquired cash	(8,856)
Purchase price, net of acquired cash	37,827
Accounts receivable	3,733
Intangible assets	13,255
Other assets	1,718
Deferred tax liability, net	(2,342)
Accounts payable, accrued expenses and deferred revenue	(4,622)
Goodwill	$26,085

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

	Costs	Useful Lives
Customer relationships	$5,455	10-15 years
Internally developed software	5,000	3 years
Tradename- indefinite life	1,820	indefinite
Tradename- finite life	300	3 years
Non-compete agreement	380	3 years
Other	300	indefinite
Total	$13,255	

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

From the date of acquisition to September 30, 2013, Xtrakter-related revenue and net income of $12.8 million and $0.1 million, respectively, have been included in the Company's Consolidated Statements of Operations. The following unaudited pro forma consolidated financial information reflects the results of operations of the Company for the nine months ended September 30, 2013, as if the acquisition of Xtrakter had occurred as of the beginning of the period presented, after giving effect to certain purchase accounting adjustments. The pro forma results are not necessarily indicative of what the Company's operating results would have been had the acquisition actually taken place at the beginning of the period presented. The pro forma financial information includes the amortization charges from acquired intangible assets, adjustments to interest income to reflect the cash purchase price and related tax effects.

	Nine Months Ended

	September 30, 2013 (In thousands, except per share amounts)
Revenues	$ 182,215
Income before income taxes	$ 82,517
Net income	$ 53,109
Basic net income per common share	$ 1.44
Diluted net income per common share	$ 1.40

6. Goodwill and Intangible Assets

Goodwill and intangible assets with indefinite lives was $59.7 million as of both September 30, 2014 and December 31, 2013. Intangible assets that are subject to amortization, including the related accumulated amortization, are comprised of the following:

	September 30, 2014			December 31, 2013		
	Cost	Accumulated Amortization	Net Carrying Amount	Cost	Accumulated Amortization	Net Carrying Amount
	(In thousands)					
Technology	$5,770	$ (3,409)	$ 2,361	$5,770	$ (2,159)	$ 3,611
Customer relationships	5,692	(1,098)	4,594	5,698	(816)	4,882
Non-competition agreements	380	(201)	179	380	(106)	274
Tradenames	370	(228)	142	370	(153)	217
Total	$12,212	$ (4,936)	$ 7,276	$12,218	$ (3,234)	$ 8,984

Amortization expense associated with identifiable intangible assets was $1.7 million and $1.5 million for the nine months ended September 30, 2014 and 2013, respectively. Estimated total amortization expense is $2.3 million for each of 2014 and 2015, $0.7 million for 2016 and $0.4 million for each of 2017 and 2018.

7. Income Taxes

The provision for income taxes from continuing operations consists of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In thousands)			
Current:				