

MARKETAXESS HOLDINGS INC

Form 10-Q

July 26, 2018

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 June 30, 2018

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.)

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299 Park Avenue, 10th Floor New York, New York 10171  
(Address of principal executive offices) (Zip Code)

(212) 813-6000

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically 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, smaller reporting company, or an emerging growth company. See definition of "large accelerated filer," "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company  
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 July 24, 2018, the number of shares of the Registrant's voting common stock outstanding was 37,570,970.

MARKETAXESS HOLDINGS INC.

FORM 10-Q FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2018

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## PART I — Financial Information

## Item 1. Financial Statements

## MARKETAXESS HOLDINGS INC.

## CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(Unaudited)

	As of	
	June 30, 2018	December 31, 2017
	(In thousands, except share  and per share amounts)	
<b>ASSETS</b>		
Cash and cash equivalents	\$ 170,686	\$ 167,014
Investments, at fair value	249,591	239,521
Accounts receivable, net of allowance of \$74 and \$178 as of		
June 30, 2018 and December 31, 2017, respectively	61,883	52,636
Goodwill and intangible assets, net of accumulated amortization	62,867	63,059
Furniture, equipment, leasehold improvements and capitalized		
software, net of accumulated depreciation and amortization	50,088	38,548
Prepaid expenses and other assets	21,030	18,717
Deferred tax assets, net	1,453	1,737
Total assets	\$ 617,598	\$ 581,232
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Liabilities</b>		
Accrued employee compensation	\$ 23,612	\$ 36,502
Income and other tax liabilities	12,972	13,061
Deferred revenue	3,595	2,660
Accounts payable, accrued expenses and other liabilities	20,041	14,241
Total liabilities	60,220	66,464
<b>Commitments and Contingencies (Note 10)</b>		
<b>Stockholders' equity</b>		
Preferred stock, \$0.001 par value, 4,855,000 shares authorized,		
no shares issued and outstanding as of June 30, 2018 and		
December 31, 2017	—	—

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Series A Preferred Stock, \$0.001 par value, 110,000 shares authorized,

no shares issued and outstanding as of June 30, 2018 and

December 31, 2017

Common stock voting, \$0.003 par value, 110,000,000 shares

authorized, 40,420,215 shares and 40,402,059 shares issued

and 37,578,970 shares and 37,620,736 shares outstanding as of

June 30, 2018 and December 31, 2017, respectively

121 121

Common stock non-voting, \$0.003 par value, 10,000,000 shares

authorized, no shares issued and outstanding as of

June 30, 2018 and December 31, 2017

Additional paid-in capital

331,056 331,081

Treasury stock - Common stock voting, at cost, 2,841,245 and

2,781,323 shares as of June 30, 2018 and

December 31, 2017, respectively

(172,695) (159,791 )

Retained earnings

410,419 353,583

Accumulated other comprehensive loss

(11,523 ) (10,226 )

Total stockholders' equity

557,378 514,768

Total liabilities and stockholders' equity

\$617,598 \$ 581,232

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

## MARKETAXESS HOLDINGS INC.

## CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(In thousands, except share and per share amounts)			
<b>Revenues</b>				
Commissions	\$96,113	\$87,015	\$198,885	\$181,037
Information services	6,930	6,497	13,996	12,682
Post-trade services	3,620	2,489	8,196	4,945
Other	301	313	601	614
<b>Total revenues</b>	<b>106,964</b>	<b>96,314</b>	<b>221,678</b>	<b>199,278</b>
<b>Expenses</b>				
Employee compensation and benefits	26,199	25,319	55,033	52,603
Depreciation and amortization	5,790	4,790	11,059	9,483
Technology and communications	5,793	4,822	11,572	9,407
Professional and consulting fees	5,426	4,086	10,483	8,365
Occupancy	3,467	1,422	6,804	2,826
Marketing and advertising	3,535	2,782	5,600	4,668
Clearing costs	2,012	1,517	3,737	2,844
General and administrative	2,708	2,591	5,183	4,939
<b>Total expenses</b>	<b>54,930</b>	<b>47,329</b>	<b>109,471</b>	<b>95,135</b>
<b>Operating income</b>	<b>52,034</b>	<b>48,985</b>	<b>112,207</b>	<b>104,143</b>
<b>Other income (expense)</b>				
Investment income	1,383	840	2,551	1,587
Other, net	(207 )	(252 )	(535 )	(550 )
<b>Total other income</b>	<b>1,176</b>	<b>588</b>	<b>2,016</b>	<b>1,037</b>
<b>Income before income taxes</b>	<b>53,210</b>	<b>49,573</b>	<b>114,223</b>	<b>105,180</b>
<b>Provision for income taxes</b>	<b>12,723</b>	<b>11,550</b>	<b>25,796</b>	<b>24,694</b>
<b>Net income</b>	<b>\$40,487</b>	<b>\$38,023</b>	<b>\$88,427</b>	<b>\$80,486</b>
<b>Net income per common share</b>				
Basic	\$1.10	\$1.03	\$2.39	\$2.18
Diluted	\$1.07	\$1.00	\$2.33	\$2.11
<b>Cash dividends declared per common share</b>	<b>\$0.42</b>	<b>\$0.33</b>	<b>\$0.84</b>	<b>\$0.66</b>
<b>Weighted average shares outstanding</b>				
Basic	36,950	36,853	36,952	36,852
Diluted	37,862	38,077	37,874	38,095

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

## MARKETAXESS HOLDINGS INC.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(In thousands)			
Net income	\$40,487	\$38,023	\$88,427	\$80,486
Net cumulative translation adjustment and foreign currency exchange hedge, net of tax of \$1,328, \$(1,106), \$506 and \$(1,634), respectively	(1,288 )	1,325	(1,020 )	960
Net unrealized gain (loss) on securities available-for-sale, net of tax of \$18, \$(20), \$(89) and \$(6), respectively	57	(33 )	(277 )	(10 )
Comprehensive income	\$39,256	\$39,315	\$87,130	\$81,436

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 - Additional Common		Treasury Stock - Common	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Common Stock Voting (In thousands)	Additional Paid-In Capital	Common Stock Voting	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Balance at December 31, 2017	\$ 121	\$ 331,081	\$(159,791)	\$ 353,583	\$ (10,226 )	\$ 514,768
Net income	—	—	—	88,427	—	88,427
Cumulative translation adjustment and foreign currency exchange hedge, net of tax	—	—	—	—	(1,020 )	(1,020 )
Unrealized net loss on securities available-for-sale, net of tax	—	—	—	—	(277 )	(277 )
Stock-based compensation	—	7,601	—	—	—	7,601
Exercise of stock options	—	371	—	—	—	371
Withholding tax payments on restricted stock vesting and stock option exercises	—	(7,997 )	—	—	—	(7,997 )
Repurchases of common stock	—	—	(12,904 )	—	—	(12,904 )
Cash dividend on common stock	—	—	—	(31,591 )	—	(31,591 )
Balance at June 30, 2018	\$ 121	\$ 331,056	\$(172,695)	\$ 410,419	\$ (11,523 )	\$ 557,378

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

## MARKETAXESS HOLDINGS INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six Months Ended June 30,	
	2018	2017
	(In thousands)	
Cash flows from operating activities		
Net income	\$88,427	\$80,486
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	11,059	9,483
Stock-based compensation expense	7,601	7,468
Deferred taxes	1,448	1,399
Other	1,014	740
Changes in operating assets and liabilities:		
(Increase) in accounts receivable	(9,350 )	(4,669 )
(Increase) in prepaid expenses and other assets	(2,330 )	(9,407 )
(Increase) in corporate debt trading investments	(3,288 )	(111 )
(Increase) in mutual funds held in rabbi trust	(1,203 )	(1,620 )
(Decrease) in accrued employee compensation	(12,890 )	(11,703 )
(Decrease) in income and other tax liabilities	(1,164 )	(3,068 )
Increase in deferred revenue	935	561
Increase (decrease) in accounts payable, accrued expenses and other liabilities	5,559	(441 )
Net cash provided by operating activities	85,818	69,118
Cash flows from investing activities		
Available-for-sale investments		
Proceeds from maturities and sales	152,335	101,354
Purchases	(159,192)	(143,214)
Purchases of furniture, equipment and leasehold improvements	(16,035 )	(5,777 )
Capitalization of software development costs	(6,536 )	(6,667 )
Other	16	(33 )
Net cash (used in) investing activities	(29,412 )	(54,337 )
Cash flows from financing activities		
Cash dividend on common stock	(31,350 )	(24,535 )
Exercise of stock options	371	1,338
Withholding tax payments on restricted stock vesting and stock option exercises	(7,997 )	(8,111 )
Repurchases of common stock	(12,904 )	(24,147 )
Net cash (used in) financing activities	(51,880 )	(55,455 )
Effect of exchange rate changes on cash and cash equivalents	(854 )	574
Cash and cash equivalents		
Net increase (decrease) for the period	3,672	(40,100 )
Beginning of period	167,014	168,243

End of period	\$170,686	\$128,143
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The accompanying notes are an integral part of these consolidated financial statements.

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MARKETAXESS HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Organization and Principal Business Activity

MarketAxess Holdings Inc. (the “Company” or “MarketAxess”) was incorporated in the State of Delaware on April 11, 2000. Through its subsidiaries, 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 1,400 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, trade publication, 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, as amended, for the year ended December 31, 2017. The consolidated financial information as of December 31, 2017 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.

Accounting Pronouncements, Recently Adopted

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, “Revenue from Contracts with Customers” (“ASU 2014-09”) requiring an entity to 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 standard also requires new disclosure concerning contracts with customers, including the significant judgments made when applying the guidance. The Company adopted ASU 2014-09 effective January 1, 2018 using the modified retrospective transition approach. The Company completed its analysis and the adoption of this guidance did not have a material impact on the Company's Consolidated Financial Statements.

Accounting Pronouncements, Not Yet Adopted as of June 30, 2018

In February 2016, the FASB issued ASU 2016-02, "Leases" ("ASU 2016-02") requiring lessees to recognize right-of-use assets and lease liabilities on the balance sheet for those leases previously classified as operating leases with lease terms greater than 12 months. ASU 2016-02 will be effective for the Company beginning January 1, 2019 and early adoption is permitted. The Company is currently evaluating the adoption implications and expects that there will be a material impact to its Consolidated Statements of Financial Condition when the Company recognizes new right-of-use assets and lease liabilities associated with the future minimum payments required under operating leases. The presentation of occupancy expense and the pattern of expense recognition within the Consolidated Financial Statements of Operations and Consolidated Statements of Cash Flows is expected to be consistent with the current lease accounting guidance.

In January 2017, the FASB issued ASU 2017-04, "Intangibles-Goodwill and Other" ("ASU 2017-04"). ASU 2017-04 simplifies the testing for goodwill impairment. The guidance will be effective for the Company beginning January 1, 2020 and early adoption is permitted and should be applied prospectively. The adoption of this guidance is not expected to have a material effect on the Company's Consolidated Financial Statements.

### 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 and trading investments are comprised of 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 are carried at fair value, with realized and unrealized gains or losses included in other, net 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 the Consolidated Statements of Operations. The remainder is recognized in accumulated other comprehensive loss if the Company does not intend to sell the security and it is more likely than not that the Company will not be required to sell the security prior to recovery. No charges for other-than-temporary losses were recorded during the six months ended June 30, 2018 and 2017.

### 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 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 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 other, net 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

On January 1, 2018, the Company adopted ASU 2014-09 using the modified retrospective approach. The adoption of ASU 2014-09 did not have a material impact on the measurement or recognition of revenue in any prior or current reporting periods.

The Company's classification of revenues in the Consolidated Statement of Operations represents revenues from contracts with customers disaggregated by type of revenue.

The Company has four revenue streams as described below.

**Commission Revenue.** The Company charges its broker-dealer clients variable transaction fees for trades executed on its platform and, under certain plans, distribution fees or monthly minimum fees to use the platform for a particular product area. Variable transaction fees 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 disclosed trading 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. Variable transaction fees, distribution fees and unused monthly fee commitments are invoiced and recorded on a monthly basis.

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 its commission through the difference in price between the two trades. The commission is collected upon settlement of the trade, which typically occurs within one to two trading days after the trade date. The following table presents commission revenue by fee type for the three and six months ended June 30, 2018 and 2017:

Three Months		Six Months Ended	
Ended June 30,		June 30,	
2018	2017	2018	2017



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(In thousands)

Commission revenue by fee type

Variable transaction fees

Disclosed trading	\$56,463	\$59,367	\$122,716	\$125,270
Open Trading™ - matched principal trading	15,191	11,216	28,715	23,161
Total variable transaction fees	71,654	70,583	151,431	148,431
Distribution fees and unused minimum fees	24,459	16,432	47,454	32,606
Total commissions	\$96,113	\$87,015	\$198,885	\$181,037

Information services – Information services includes data licensed to the Company’s broker-dealer clients, institutional investor clients and data-only subscribers; professional and consulting services; technology software licenses; and maintenance and support services. The nature and timing of each performance obligation may vary as these contracts are either subscription based services transferred over time or one-time services that are transferred at a point in time. Revenues for services transferred over time are recognized ratably over the contract period as the Company’s performance obligation is met whereas revenues for services transferred at a point in time are recognized in the period the services are provided. Customers are generally billed monthly, quarterly, or annually; revenues billed in advance are deferred and recognized ratably over the contract period. The following table presents information services revenue by timing of recognition for the three and six months ended June 30, 2018 and 2017:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(In thousands)			
Information services revenue by timing of recognition				
Services transferred over time	\$6,829	\$6,287	\$13,623	\$12,332
Services transferred at a point in time	101	210	373	350
Total information services revenues	\$6,930	\$6,497	\$13,996	\$12,682

Post-trade services – Post-trade services revenue is generated from regulatory transaction reporting, trade publication and trade matching services. Customers are generally billed monthly in arrears and revenue is recognized in the period transactions are processed. Revenues billed in advance are deferred and recognized ratably over the contract period. The Company also generates one-time implementation fees for onboarding clients which are invoiced and recognized in the period the implementation is completed. The following table presents post-trade services revenue by timing of recognition for the three and six months ended June 30, 2018 and 2017:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(In thousands)			
Post-trade services revenue by timing of recognition				
Services transferred over time	\$3,620	\$2,470	\$7,907	\$4,919
Services transferred at a point in time	—	19	289	26
Total post-trade services revenues	\$3,620	\$2,489	\$8,196	\$4,945

Other revenues – Other revenues primarily includes revenue from telecommunications line charges to broker-dealer clients.

Contract liabilities consist of deferred revenues that the Company records when cash payments are received or due in advance of services to be performed. The revenue recognized from contract liabilities and the remaining balance is

shown below:

	Payments received in advance of services to		Revenue recognized for services performed	Foreign Currency Translation	June 30, 2018
	December 31, 2017	June 30, 2018	during the period		
	(In thousands)				
Information services	\$1,763	\$ 3,752	\$ (3,312 )	\$ —	\$ 2,203
Post-trade services	897	6,423	(5,908 )	(20 )	1,392
Total deferred revenue	\$2,660	\$ 10,175	\$ (9,220 )	\$ (20 )	\$ 3,595

The majority of the Company's contracts are short-term in nature with durations of less than one-year. For contracts extending beyond one year, the aggregate amount of the transaction price allocated to remaining performance obligations was \$11.4 million as of June 30, 2018. The Company expects to recognize revenue associated with the remaining performance obligations over the next 22 months.

### 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. Forfeitures are recognized as they occur.

### 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. Effective upon the Company's adoption of ASU 2016-09, all tax effects related to share-based payments are recorded through tax expense in the periods during which the awards are exercised or vest.

On December 22, 2017, the SEC issued Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act ("SAB 118") to address the application of U.S. generally accepted accounting principles ("GAAP") related to the enactment of the Tax Cuts and Jobs Act (the "Tax Act"). SAB 118 allows the Company to record a provisional amount when it does not have the necessary information available, prepared, or analyzed in reasonable detail to complete its accounting for the change in the tax law. The measurement period ends when the Company has obtained, prepared and analyzed the information necessary to finalize its accounting, but cannot extend beyond one year. The Company expects to complete its analysis within the measurement period in accordance with SAB 118.

### 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.

## Reclassifications

Certain reclassifications have been made to the prior period's Consolidated Financial Statements in order to conform to the current year presentation. The Company reclassified certain revenue line items on the consolidated statements of operations to separately reflect information service revenues and post-trade service revenues. The Company also revised the format of the Consolidated Statement of Operations to separately present non-operating activities. Such activities include investment income, unrealized and realized gains (losses) on trading securities, foreign exchange gains (losses), investment advisory fees and other miscellaneous non-operating activities. Accordingly, the Company reclassified these amounts from the various revenue and expense line items to Other income (expense). The reclassifications had no effect on previously reported income before income taxes or net income.

## 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 ("CFTC"). 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 other foreign regulators and must maintain financial resources, as defined in the applicable regulations, in excess of the applicable financial resources requirement. As of June 30, 2018, 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 June 30, 2018, the Company's subsidiaries maintained aggregate net capital and financial resources that was \$140.7 million in excess of the required levels of \$14.9 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)			
June 30, 2018				
Money market funds	\$ 101,896	\$—	\$ —	\$ 101,896
Securities available-for-sale				
Corporate debt	—	151,019	—	151,019
Trading securities				
Corporate debt	—	94,202	—	94,202
Mutual funds held in rabbi trust	—	4,370	—	4,370
Foreign currency forward position	—	(262 )	—	(262 )
Total	\$ 101,896	\$ 249,329	\$ —	\$ 351,225

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Money market funds	\$88,562	\$—	\$ —	\$88,562
Securities available-for-sale				
Corporate debt	—	145,052	—	145,052
Trading securities				
Corporate debt	—	91,302	—	