

MARKETAXESS HOLDINGS INC

Form 10-Q

October 28, 2010

Table of Contents

**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, 2010

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 No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See 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 Smaller reporting company

(Do not check if a smaller reporting company)

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

As of October 27, 2010, the number of shares of the Registrant's voting common stock outstanding was 30,927,791 and the number of shares of the Registrant's non-voting common stock was 2,585,654.

MARKETAXESS HOLDINGS INC.
FORM 10-Q FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2010
TABLE OF CONTENTS

	Page
<u>PART I Financial Information</u>	
<u>Item 1. Financial Statements (Unaudited)</u>	
<u>Consolidated Statements of Financial Condition as of September 30, 2010 and December 31, 2009</u>	3
<u>Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2010 and 2009</u>	4
<u>Consolidated Statement of Changes in Stockholders' Equity and Accumulated Other Comprehensive Loss for the Nine Months Ended September 30, 2010</u>	5
<u>Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2010 and 2009</u>	6
<u>Notes to Consolidated Financial Statements</u>	7
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	20
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	34
<u>Item 4. Controls and Procedures</u>	35
<u>PART II Other Information</u>	
<u>Item 1. Legal Proceedings</u>	36
<u>Item 1A. Risk Factors</u>	36
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	36
<u>Item 3. Defaults Upon Senior Securities</u>	37
<u>Item 4. (Removed and Reserved)</u>	37
<u>Item 5. Other Information</u>	37
<u>Item 6. Exhibits</u>	37
<u>Exhibit 31.1</u>	
<u>Exhibit 31.2</u>	
<u>Exhibit 32.1</u>	
<u>Exhibit 32.2</u>	

Table of Contents**PART I Financial Information****Item 1. Financial Statements**

MARKETAXESS HOLDINGS INC.
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(Unaudited)

	As of	
	September 30, 2010	December 31, 2009
	(In thousands, except share and per share amounts)	
ASSETS		
Cash and cash equivalents	\$ 108,745	\$ 103,341
Securities available-for-sale, at fair value	74,218	70,997
Securities and cash provided as collateral	4,943	4,971
Accounts receivable, including receivables from related parties of \$2,840 and \$3,431, respectively, net of allowance of \$663 and \$859 as of September 30, 2010 and December 31, 2009, respectively	27,320	23,150
Furniture, equipment and leasehold improvements, net of accumulated depreciation and amortization	9,595	6,856
Software development costs, net of accumulated amortization	3,027	3,420
Goodwill and intangible assets, net of accumulated amortization	36,392	37,530
Prepaid expenses and other assets	2,591	3,041
Deferred tax assets, net	20,338	23,980
Total assets	\$ 287,169	\$ 277,286
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities		
Accrued employee compensation	\$ 13,551	\$ 15,157
Deferred revenue	4,878	4,262
Accounts payable, accrued expenses and other liabilities, including payables to related parties of \$68 and \$29 as of September 30, 2010 and December 31, 2009, respectively	12,674	11,050
Total liabilities	31,103	30,469
Commitments and Contingencies (Note 10)		
Series B Preferred Stock , \$0.001 par value, 35,000 shares authorized, issued and outstanding as of September 30, 2010 and December 31, 2009, liquidation preference of \$1,000 per share	30,315	30,315
Stockholders equity		
Preferred stock, \$0.001 par value, 4,855,000 shares authorized, no shares issued and outstanding as of September 30, 2010 and December 31, 2009		

Edgar Filing: MARKETAXESS HOLDINGS INC - Form 10-Q

Series A Preferred Stock, \$0.001 par value, 110,000 shares authorized, no shares issued and outstanding as of September 30, 2010 and December 31, 2009		
Common stock voting, \$0.003 par value, 110,000,000 shares authorized, 35,597,220 shares and 34,654,957 shares issued as of September 30, 2010 and December 31, 2009, respectively	107	104
Common stock non-voting, \$0.003 par value, 10,000,000 shares authorized, 2,585,654 shares issued and outstanding as of September 30, 2010 and December 31, 2009	9	9
Additional paid-in capital	330,956	313,896
Receivable for common stock subscribed		(713)
Treasury stock - Common stock voting, at cost, 4,419,296 and 2,864,120 shares as of September 30, 2010 and December 31, 2009, respectively	(63,258)	(40,000)
Accumulated deficit	(40,961)	(55,403)
Accumulated other comprehensive loss	(1,102)	(1,391)
Total stockholders' equity	225,751	216,502
Total liabilities and stockholders' equity	\$ 287,169	\$ 277,286

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

Table of Contents

MARKETAXESS HOLDINGS INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended		Nine Months Ended September	
	September 30,		30,	
	2010	2009	2010	2009
	(In thousands, except share and per share amounts)			
Revenues				
Commissions				
U.S. high-grade	\$ 21,537	\$ 16,306	\$ 61,562	\$ 43,629
Eurobond	4,075	5,497	14,236	14,351
Other	5,540	3,486	14,121	9,585
Total commissions	31,152	25,289	89,919	67,565
Technology products and services	3,455	2,601	9,870	6,720
Information and user access fees	1,603	1,519	4,959	4,678
Investment income	301	314	907	880
Other	902	286	1,968	637
Total revenues	37,413	30,009	107,623	80,480
Expenses				
Employee compensation and benefits	14,326	13,127	42,448	36,486
Depreciation and amortization	1,560	1,654	4,798	5,124
Technology and communications	2,543	2,029	7,313	6,391
Professional and consulting fees	2,241	1,645	6,369	5,137
Occupancy	706	706	2,351	2,075
Marketing and advertising	679	651	2,066	2,004
General and administrative	1,834	1,654	5,813	4,253
Total expenses	23,889	21,466	71,158	61,470
Income before income taxes	13,524	8,543	36,465	19,010
Provision for income taxes	4,913	3,903	13,984	8,344
Net income	\$ 8,611	\$ 4,640	\$ 22,481	\$ 10,666
Net income per common share				
Basic	\$ 0.24	\$ 0.13	\$ 0.61	\$ 0.29
Diluted	\$ 0.22	\$ 0.12	\$ 0.57	\$ 0.28
Cash dividends declared per common share				
	\$ 0.07	\$	\$ 0.21	\$
Weighted average common shares				
Basic	32,944,706	33,287,464	33,434,374	33,242,280

Diluted 38,743,590 38,196,823 39,187,558 37,855,864

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

Table of Contents

MARKETAXESS HOLDINGS INC.
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY
AND ACCUMULATED OTHER COMPREHENSIVE LOSS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010
(Unaudited)

	Common		Receivable for		Treasury Stock -	Accumu- lated		Total
	Common Stock Voting	Non- Voting	Additional Paid-In Capital	Common Stock Subscribed	Common Stock Voting	Accumu- lated Deficit	Other Comprehen- sive Loss	Stock- holders Equity
	(In thousands)							
Balance at December 31, 2009	\$ 104	\$ 9	\$ 313,896	\$ (713)	\$ (40,000)	\$ (55,403)	\$ (1,391)	\$ 216,502
Comprehensive income:								
Net income						22,481		22,481
Cumulative translation adjustment and foreign currency exchange hedge, net of tax							(380)	(380)
Unrealized net gain on securities available-for-sale, net of tax							669	669
Total comprehensive income								22,770
Stock-based compensation			6,628					6,628
Exercise of stock options and grants of restricted stock, net of withholding tax on stock vesting	3		1,955					1,958
Cash dividend on common stock and Series B Preferred Stock						(8,039)		(8,039)
Purchase of treasury stock					(23,258)			(23,258)
Repayment of promissory notes				713				713
Tax benefit from the exercise of warrants in prior years			7,571					7,571
Windfall tax benefits from stock-based compensation			906					906
Balance at September 30, 2010	\$ 107	\$ 9	\$ 330,956	\$	\$ (63,258)	\$ (40,961)	\$ (1,102)	\$ 225,751

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

Table of Contents

MARKETAXESS HOLDINGS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended September 30,	
	2010	2009
	(In thousands)	
Cash flows from operating activities		
Net income	\$ 22,481	\$ 10,666
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,798	5,124
Stock-based compensation expense	6,628	6,304
Deferred taxes	10,982	7,153
Provision for bad debts	389	673
Gain on sale of securities	(411)	
Changes in operating assets and liabilities		
(Increase) in accounts receivable	(4,559)	(11,043)
Decrease in prepaid expenses and other assets	450	798
Decrease in accrued employee compensation	(1,606)	(225)
Increase in deferred revenue	616	2,122
Increase in accounts payable, accrued expenses and other liabilities	1,815	2,441
Net cash provided by operating activities	41,583	24,013
Cash flows from investing activities		
Acquisition of business		(1,368)
Securities available-for-sale:		
Proceeds from maturities and sales	55,480	15,740
Purchases	(57,194)	(35,985)
Securities and cash provided as collateral	28	(240)
Purchases of furniture, equipment and leasehold improvements	(4,684)	(1,560)
Capitalization of software development costs	(1,331)	(1,421)
Net cash used in investing activities	(7,701)	(24,834)
Cash flows from financing activities		
Cash dividend on common stock and Series B Preferred Stock	(8,039)	
Purchase of treasury stock	(23,258)	
Proceeds from exercise of stock options and grants of restricted stock, net of withholding tax	1,958	211
Windfall tax benefits from stock-based compensation	906	(319)
Other	522	90
Net cash used in financing activities	(27,911)	(18)
Effect of exchange rate changes on cash and cash equivalents	(567)	(351)

Cash and cash equivalents

Net increase (decrease) for the period	5,404	(1,190)
Beginning of year	103,341	107,323

End of period	\$ 108,745	\$ 106,133
----------------------	-------------------	-------------------

Supplemental cash flow information:**Cash paid during the year:**

Income taxes paid	\$ 1,638	\$ 213
-------------------	----------	--------

Non-cash activity:

Capital lease obligation	\$	\$ 723
--------------------------	----	--------

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

Table of Contents**MARKETAXESS HOLDINGS INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Unaudited****1. Organization and Principal Business Activity**

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

The Company's stockholder broker-dealer clients as of January 1, 2010 were BNP Paribas, Credit Suisse and JPMorgan. These broker-dealer clients constitute related parties of the Company (together, the Stockholder Broker-Dealer Clients). For 2009, the same three dealers were considered to be Stockholder Broker-Dealer Clients. See Note 7, Related Parties.

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, 2009. The consolidated financial information as of December 31, 2009 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 include cash maintained at U.S. and U.K. banks and in money market funds. The Company defines cash equivalents as short-term interest-bearing investments with maturities at the time of purchase of three months or less. The Company's cash is held at major international banks. Given this concentration, the Company may be exposed to certain credit risk.

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.

Table of Contents**MARKETAXESS HOLDINGS INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Unaudited (Continued)**

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 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, 2010 and 2009.

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. The standard also establishes a three-tiered fair value hierarchy 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 securities available-for-sale portfolio and one foreign currency forward contract.

Securities and Cash Provided as Collateral

Securities provided as collateral consist of U.S. government obligations and cash. Collectively, these amounts are used as collateral for standby letters of credit, electronic bank settlements, foreign currency forward contracts to hedge the Company's net investments in certain foreign subsidiaries and broker-dealer clearance accounts.

Allowance for Doubtful Accounts

The Company continually monitors collections and payments from its clients 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, which is indicative of the estimated useful life of the assets. Leasehold improvements are stated at cost and are amortized using the straight-line method over the lesser of the life of the improvement or the remaining term of the lease.

Software Development Costs

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

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. subsidiary. Gains and losses on these transactions are deferred and included in accumulated other comprehensive loss on the Consolidated Statements of Financial Condition.

Table of Contents**MARKETAXESS HOLDINGS INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Unaudited (Continued)*****Revenue Recognition***

The majority of the Company's revenues are derived from monthly distribution fees and commissions for trades executed on its platform that are billed to its broker-dealer clients on a monthly basis. The Company also derives revenues from technology products and services, information and user access fees, 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 riskless principal basis by serving as counterparty to both the buyer and the seller, the Company earns the commission through the difference in price between the two back-to-back trades.

Technology products and services. The Company generates revenues from technology software licenses, maintenance and support services (referred to as post-contract technical support or PCS) and professional consulting services. Revenue is generally recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable and collection is considered probable. The Company generally sells software licenses and services together as part of multiple-element arrangements. The Company also enters into contracts for technology integration consulting services unrelated to any software product. When the Company enters into a multiple-element arrangement, the residual method is used to allocate the total fee among the elements of the arrangement. Under the residual method, license revenue is recognized upon delivery when vendor-specific objective evidence of fair value exists for all of the undelivered elements in the arrangement, but does not exist for one or more of the delivered elements in the arrangement. Each license arrangement requires that the Company analyze the individual elements in the transaction and estimate the fair value of each undelivered element, which typically includes PCS and professional services. License revenue consists of license fees charged for the use of the Company's products under perpetual and, to a lesser extent, term license arrangements. License revenue from a perpetual arrangement is generally recognized upon delivery while license revenue from a term arrangement is recognized ratably over the duration of the arrangement on a straight-line basis. If the professional services are essential to the functionality of the software product, the license revenue is recognized upon customer acceptance or satisfaction of the service obligation.

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

PCS includes telephone support, bug fixes and unspecified rights to product upgrades and enhancements, and is recognized ratably over the term of the service period, which is generally 12 months. The Company estimates the fair value of the PCS portion of an arrangement based on the price charged for PCS when sold separately. The Company sells PCS on a separate, standalone basis when customers renew PCS.

Revenues from contracts for technology integration consulting services are recognized on the percentage-of-completion method. Percentage-of-completion accounting involves calculating the percentage of services provided during the reporting period compared to the total estimated services to be provided over the duration of the contract. If estimates indicate that a contract loss will occur, a loss provision is recorded in the period in which the loss first becomes probable and reasonably estimable. Contract losses are determined to be the amount by which the estimated direct and indirect costs of the contract exceed the estimated total revenues that will be generated by the contract. There were no material contract loss provisions recorded as of September 30, 2010 and December 31, 2009. Revenues recognized in excess of billings are recorded as unbilled services. Billings in excess of revenues recognized are recorded as deferred revenues until revenue recognition criteria are met.

Initial set-up fees. The Company enters into agreements with its broker-dealer clients pursuant to which the Company provides access to its platform through a non-exclusive and non-transferable license. Broker-dealer clients may pay an

initial set-up fee, which is typically due and payable upon execution of the broker-dealer agreement. The initial set-up fee varies by agreement. Revenue is recognized over the initial term of the agreement, which is generally two years.

Table of Contents

MARKETAXESS HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Unaudited (Continued)

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 acquisitions were completed prior to December 31, 2008 and were 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.

Goodwill and other intangibles with indefinite lives are not amortized. An impairment review of goodwill is performed on an annual basis and more frequently if circumstances change. Intangible assets with definite lives, including purchased technologies, customer relationships and other intangible assets, are amortized on a straight-line basis over their estimated useful lives, ranging from five to ten years. The Company has no intangibles with indefinite lives. Intangible assets are assessed for impairment when events or circumstances indicate the existence of a possible impairment.

Earnings Per Share

Earnings per share (EPS) is calculated using the two-class method. Basic EPS is computed by dividing the net income attributable to common stock by the weighted-average number of shares of common stock outstanding for the period, including consideration of the two-class method to the extent that participating securities were outstanding during the period. Under the two-class method, undistributed net income is allocated to common stock and participating securities based on their respective right to share in dividends. The Series B Preferred Stock is convertible into shares of common stock and also includes a right whereby, upon the declaration or payment of a dividend or distribution on the common stock, a dividend or distribution must also be declared or paid on the Series B Preferred Stock based on the number of shares of common stock into which such securities were convertible at the time. Due to these rights, the Series B Preferred Stock is considered a participating security requiring the use of the two-class method for the computation of basic EPS.

Diluted EPS is computed using the more dilutive of the (a) if-converted method or (b) two-class method. Since the Series B Preferred Stock participates equally with the common stock in dividends and unallocated income, diluted EPS under the if-converted method is equivalent to the two-class method. Weighted-average shares outstanding of common stock reflects the dilutive effect that could occur if convertible securities or other contracts to issue common stock were converted into or exercised for common stock.

Use of Estimates

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

Table of Contents

MARKETAXESS HOLDINGS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Unaudited (Continued)
Recent Accounting Pronouncements