

MARKETAXESS HOLDINGS INC
Form 10-Q
July 24, 2015

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, 2015

or

TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 001-34091

MARKETAXESS HOLDINGS INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of

incorporation or organization)

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

52-2230784
(IRS Employer

Identification No.)

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 website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

As of July 23, 2015, the number of shares of the Registrant's voting common stock outstanding was 37,298,256.

MARKETAXESS HOLDINGS INC.

FORM 10-Q FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2015

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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, 2015	December 31, 2014
	(In thousands, except share and per share amounts)	
ASSETS		
Cash and cash equivalents	\$169,263	\$168,924
Securities available-for-sale, at fair value	67,517	64,863
Accounts receivable, net of allowance of \$99 and \$3 as of		
June 30, 2015 and December 31, 2014, respectively	46,938	33,836
Goodwill and intangible assets, net of accumulated amortization	65,281	66,419
Furniture, equipment, leasehold improvements and capitalized		
software, net of accumulated depreciation and amortization	31,290	32,185
Prepaid expenses and other assets	12,596	6,685
Deferred tax assets, net	6,061	6,972
Total assets	\$398,946	\$379,884
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Accrued employee compensation	\$16,109	\$25,310
Income and other tax liabilities	7,059	5,940
Deferred revenue	2,650	2,465
Accounts payable, accrued expenses and other liabilities	13,271	11,961
Total liabilities	39,089	45,676
Commitments and Contingencies (Note 10)	—	—
Stockholders' equity		
Preferred stock, \$0.001 par value, 4,855,000 shares authorized,		
no shares issued and outstanding as of June 30, 2015 and		
December 31, 2014	—	—

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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, 2015 and December 31, 2014	—	—
Common stock voting, \$0.003 par value, 110,000,000 shares authorized, 39,630,201 shares and 39,460,066 shares issued and 37,308,457 shares and 37,318,722 shares outstanding as of June 30, 2015 and December 31, 2014, respectively	120	120
Common stock non-voting, \$0.003 par value, 10,000,000 shares authorized, no shares issued and outstanding as of June 30, 2015 and December 31, 2014	—	—
Additional paid-in capital	313,586	307,059
Treasury stock - Common stock voting, at cost, 2,321,744 and 2,141,344 shares as of June 30, 2015 and December 31, 2014, respectively	(84,711)	(70,247)
Retained earnings	135,721	101,813
Accumulated other comprehensive loss	(4,859)	(4,537)
Total stockholders' equity	359,857	334,208
Total liabilities and stockholders' equity	\$398,946	\$379,884

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,	
	2015	2014	2015	2014
	(In thousands, except per share amounts)			
Revenues				
Commissions	\$66,412	\$54,315	\$133,430	\$106,304
Information and post-trade services	7,632	7,962	15,311	16,041
Technology products and services	762	1,987	2,182	4,023
Investment income	190	138	373	284
Other	495	562	966	1,710
Total revenues	75,491	64,964	152,262	128,362
Expenses				
Employee compensation and benefits	20,593	18,421	41,767	37,030
Depreciation and amortization	4,603	4,351	9,215	8,472
Technology and communications	3,967	4,449	8,305	8,941
Professional and consulting fees	3,011	3,426	6,293	7,398
Occupancy	1,232	1,102	2,224	2,191
Marketing and advertising	1,764	1,800	2,956	3,009
General and administrative	3,262	2,344	5,941	4,542
Total expenses	38,432	35,893	76,701	71,583
Income before income taxes	37,059	29,071	75,561	56,779
Provision for income taxes	12,821	10,880	26,730	21,113
Net income	\$24,238	\$18,191	\$48,831	\$35,666
Net income per common share				
Basic	\$0.66	\$0.49	\$1.33	\$0.96
Diluted	\$0.64	\$0.48	\$1.30	\$0.94
Cash dividends declared per common share	\$0.20	\$0.16	\$0.40	\$0.32
Weighted average shares outstanding				
Basic	36,699	37,015	36,703	37,068
Diluted	37,642	37,942	37,634	38,019

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,	
	2015	2014	2015	2014
	(In thousands)			
Net income	\$24,238	\$18,191	\$48,831	\$35,666
Net cumulative translation adjustment and foreign currency exchange hedge, net of tax of \$(166), \$(91), \$(160) and \$(237), respectively	(266)	(147)	(316)	(381)
Net unrealized (loss) gain on securities available-for-sale, net of tax of \$(43), \$2, \$(4) and \$35, respectively	(69)	4	(6)	56
Less: reclassification adjustment for realized gain from securities available-for-sale included in Other Income, net of tax of \$0, \$0, \$0 and \$(13), respectively	—	—	—	(22)
Net change in unrealized (loss) gain on securities available-for-sale, net of tax	(69)	4	(6)	34
Comprehensive Income	\$23,903	\$18,048	\$48,509	\$35,319

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 (In thousands)	Additional Paid-In Capital	Treasury Stock - Common Stock Voting	Retained Earnings	Accumulated Other Comprehen- sive Loss	Total Stockholders' Equity
Balance at December 31, 2014	\$ 120	\$ 307,059	\$(70,247)	\$ 101,813	\$ (4,537)	\$ 334,208
Net income	—	—	—	48,831	—	48,831
Cumulative translation adjustment and foreign currency						
exchange hedge, net of tax	—	—	—	—	(316)	(316)
Unrealized net gain on securities available-for-sale,						
net of tax	—	—	—	—	(6)	(6)
Stock-based compensation	—	6,025	—	—	—	6,025
Exercise of stock options	—	990	—	—	—	990
Withholding tax payments on restricted stock vesting						
and stock option exercises	—	(4,243)	—	—	—	(4,243)
Excess tax benefits from stock-based compensation	—	3,755	—	—	—	3,755
Repurchases of common stock	—	—	(14,464)	—	—	(14,464)
Cash dividend on common stock	—	—	—	(14,923)	—	(14,923)
Balance at June 30, 2015	\$ 120	\$ 313,586	\$(84,711)	\$ 135,721	\$ (4,859)	\$ 359,857

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, 2015 (In thousands)	2014
Cash flows from operating activities		
Net income	\$ 48,831	\$ 35,666
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	9,215	8,472
Stock-based compensation expense	6,025	4,651
Deferred taxes	858	2,546
Other	1,201	852
Changes in operating assets and liabilities:		
(Increase) in accounts receivable	(13,197)	(6,764)
(Increase) in prepaid expenses and other assets	(5,907)	(1,683)
(Decrease) in accrued employee compensation	(9,201)	(11,805)
Increase in income and other tax liabilities	1,336	2,571
Increase in deferred revenue	185	237
Increase in accounts payable, accrued expenses and other liabilities	1,249	1,669
Net cash provided by operating activities	40,595	36,412
Cash flows from investing activities		
Securities available-for-sale:		
Proceeds from maturities	15,328	5,410
Purchases	(19,098)	(4,181)
Purchases of furniture, equipment and leasehold improvements	(2,345)	(3,754)
	(4,816)	(4,971)

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Capitalization of software development costs				
Other	(4)	(33)
Net cash (used in) investing activities				
	(10,935)	(7,529)
Cash flows from financing activities				
Cash dividend on common stock				
	(14,862)	(12,164)
Exercise of stock options	990		845	
Withholding tax payments on restricted stock vesting and stock option exercises				
	(4,243)	(4,968)
Excess tax benefits from stock-based compensation	3,755		2,576	
Repurchases of common stock				
	(14,464)	(13,748)
Other	—		(42)
Net cash (used in) financing activities				
	(28,824)	(27,501)
Effect of exchange rate changes on cash and cash equivalents				
	(497)	(919)
Cash and cash equivalents				
Net increase for the period				
	339		463	
Beginning of period				
	168,924		132,691	
End of period				
	\$	169,263	\$	133,154

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 derivatives 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, 2014. The consolidated financial information as of December 31, 2014 has been derived from audited financial statements not included herein. These unaudited consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) and the rules and regulations of the U.S. Securities and Exchange Commission (“SEC”) with respect to Form 10-Q and reflect all adjustments that, in the opinion of management, are normal and recurring, and that are necessary for a fair statement of the results for the interim periods presented. In accordance with such rules and regulations, certain disclosures that are normally included in annual financial statements have been omitted. Interim period operating results may not be indicative of the operating results for a full year.

Cash and Cash Equivalents

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

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 included in accumulated other comprehensive loss in the Consolidated Statements of Financial Condition. Realized gains and losses are recorded in the Consolidated Statements of Operations in other revenues. For the purpose of computing realized gains and losses, cost is determined on a specific identification basis.

The Company assesses whether an other-than-temporary impairment loss on the investments has occurred due to declines in fair value or other market conditions. The portion of an other-than-temporary impairment related to credit loss is recorded as a charge in the Consolidated Statements of Operations. The remainder is recognized in accumulated other comprehensive loss if the Company does not intend to sell the security and it is more likely than not that the Company will not be required to sell the security prior to recovery. No charges for other-than-temporary losses were recorded during the six months ended June 30, 2015 and 2014.

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 foreign currency forward contracts. All other financial instruments are short-term in nature and the carrying amount is reported in the 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, size, yield and maturity of the bond traded. Under the Company's transaction fee plans, bonds that are more actively traded or that have shorter maturities are generally charged lower commissions, while bonds that are less actively traded or that have longer maturities generally command higher commissions. For trades that the Company executes between and among institutional investor and broker-dealer clients on a matched principal basis by serving as counterparty to both the buyer and the seller, the Company earns the commission through the difference in price between the two matched principal trades. Fee programs for certain products include distribution fees which are recognized monthly.

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

Technology products and services. The Company generates revenues from professional consulting services, technology software licenses and maintenance and support services (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 a dealer agreement. The initial set-up fee, if any, varies by agreement. Revenue is recognized over the initial term of the agreement, which is generally two years. Initial set-up fees are reported in other income in the Consolidated Statements of Operations.

Stock-Based Compensation

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

Income Taxes

Income taxes are accounted for using the asset and liability method. Deferred income taxes reflect the net tax effects of temporary differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when such differences are expected to reverse. The effect on

deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recognized against deferred tax assets if it is more likely than not that such assets will not be realized in future years. The Company recognizes interest and penalties related to unrecognized tax benefits in general and administrative expenses in the Consolidated Statements of Operations.

Business Combinations, Goodwill and Intangible Assets

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

The Company operates as a single reporting unit. Subsequent to an acquisition, goodwill no longer retains its identification with a particular acquisition, but instead becomes identifiable with the entire reporting unit. As a result, all of the fair value of the Company is available to support the value of goodwill. An impairment review of goodwill is performed on an annual basis, at year-end, or more frequently if circumstances change. Intangible assets with definite lives, including purchased technologies, customer relationships and other intangible assets, are amortized on a straight-line basis over their estimated useful lives, ranging from three to 15 years. Intangible assets are assessed for impairment when events or circumstances indicate the existence of a possible impairment.

Earnings Per Share

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

Use of Estimates

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

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, 2018 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 June 30, 2015, 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, 2015, the Company’s subsidiaries maintained aggregate net capital and financial resources that was \$97.1 million in excess of the required levels of \$8.6 million.

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

4. Fair Value Measurements

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

	Level 1	Level 2	Level 3	Total
(In thousands)				
As of June 30, 2015				
Money market funds	\$46,182	\$—	\$ —	\$46,182
Securities available-for-sale				
Municipal securities	—	6,051	—	6,051
Corporate bonds	—	61,466	—	61,466
Foreign currency forward position	—	(107)	—	(107)
	\$46,182	\$67,410	\$ —	\$113,592
As of December 31, 2014				
Money market funds	\$62,126	\$—	\$ —	\$62,126
Securities available-for-sale				
Municipal securities	—	11,696	—	11,696
Corporate bonds	—	53,167	—	53,167
Foreign currency forward position	—	103	—	103
	\$62,126	\$64,966	\$ —	\$127,092

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 six months ended June 30, 2015 and 2014.

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 typically for a one-month period and are used to limit exposure to foreign currency exchange rate fluctuations. The fair value of each asset is included in accounts receivable and the fair value of each 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 Company's foreign currency forward position is as follows:

As of

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	June 30,	December
	2015	31, 2014
	(In thousands)	
Notional value	\$38,128	\$ 32,089
Fair value of notional	38,235	31,986
Fair value of the (liability) asset	\$(107)	\$ 103

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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 June 30, 2015				
Municipal securities	\$6,051	\$ 1	\$ (1)	\$ 6,051
Corporate bonds	61,450	69	(53)	61,466
Total securities available-for-sale	\$67,501	\$ 70	\$ (54)	\$ 67,517
As of December 31, 2014				
Municipal securities	\$11,693	\$ 5	\$ (2)	\$ 11,696
Corporate bonds	53,146	50	(29)	53,167
Total securities available-for-sale	\$64,839	\$ 55	\$ (31)	\$ 64,863

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

	As of June 30, 2015	December 31, 2014
(In thousands)		
Less than one year	\$34,338	\$ 36,062
Due in 1 - 5 years	33,179	28,801
Total securities available-for-sale	\$67,517	\$ 64,863

Proceeds from the sales and maturities of securities available-for-sale during the six months ended June 30, 2015 and 2014 were \$15.3 million and \$5.4 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 June 30, 2015 and December 31, 2014:

	Less than Twelve Months	Twelve Months or More	Total
	Estimated Gross fair value	Estimated Gross fair value	Estimated Gross fair value
	unrealized losses	unrealized losses	unrealized losses
(In thousands)			
As of June 30, 2015			
Municipal securities	\$3,097	\$ (1)	\$ 3,097
Corporate bonds	22,983	(53)	22,983
Total	\$26,080	\$ (54)	\$ 26,080

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As of December 31, 2014							
Municipal securities	\$2,139	\$ (2)	\$ —	\$ —	\$2,139	\$ (2)	
Corporate bonds	20,487	(29)	—	—	20,487	(29)	
Total	\$22,626	\$ (31)	\$ —	\$ —	\$22,626	\$ (31)	

5. Goodwill and Intangible Assets

Goodwill and intangible assets with indefinite lives was \$59.7 million as of both June 30, 2015 and December 31, 2014. Intangible assets that are subject to amortization, including the related accumulated amortization, are comprised of the following:

	June 30, 2015			December 31, 2014		
	Accumulated		Net	Accumulated		Net
	Cost	Amortization	Carrying	Cost	Amortization	Carrying
	(In thousands)					
Technology	\$5,770	\$ (4,659)	\$ 1,111	\$5,770	\$ (3,826)	\$ 1,944
Customer relationships	5,684	(1,378)	4,306	5,682	(1,183)	4,499
Non-competition agreements	380	(296)	84	380	(232)	148
Tradenames	370	(303)	67	370	(253)	117
Total	\$12,204	\$ (6,636)	\$ 5,568	\$12,202	\$ (5,494)	\$ 6,707

Amortization expense associated with identifiable intangible assets was \$1.1 million for both the six months ended June 30, 2015 and 2014. Estimated total amortization expense is \$2.3 million for 2015, \$0.7 million for 2016 and \$0.4 million for each of 2017, 2018 and 2019.

6. Income Taxes

The provision for income taxes consists of the following:

	Three Months		Six Months Ended	
	Ended June 30, 2015	2014	June 30, 2015	2014
	(In thousands)			
Current:				
Federal	\$9,774	\$8,023	\$17,090	\$13,017
State and local	1,720	1,587	3,198	2,773
Foreign	1,434	561	1,955	294
Total current provision	12,928	10,171	22,243	16,084
Deferred:				
Federal	64	1,002	3,904	4,333
State and local	6	74	630	585
Foreign	(177)	(367)	(47)	111
Total deferred provision	(107)	709	4,487	5,029

Provision for income taxes	\$12,821	\$10,880	\$26,730	\$21,113
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The following is a summary of the Company's net deferred tax assets:

	As of	
	June 30,	December
	2015	31, 2014
Deferred tax assets and liabilities	\$11,717	\$12,468
Valuation allowance	(7,371)	(7,428)
Deferred tax assets, net	\$4,346	\$5,040

The Company or one of its subsidiaries files U.S. federal, state and foreign income tax returns. Income tax returns for New York City (through 2003) and state (through 2009) and Connecticut state (through 2003) tax returns have been audited. Examinations of the Company's federal tax returns for 2011 and 2012 is currently underway. The Company cannot estimate when the examinations will conclude or the impact such examinations will have on the Company's Consolidated Financial Statements, if any.

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

7. Stock-Based Compensation Plans

Stock-based compensation expense for the six months ended June 30, 2015 and 2014 was as follows:

	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
	2015	2014	2015	2014
	(In thousands)			
Employees	\$2,900	\$2,183	\$5,639	\$4,272
Non-employee directors	150	152	386	379
Total stock-based compensation	\$3,050	\$2,335	\$6,025	\$4,651

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

In January 2015, the Company granted 119,981 stock options and a 116,659 performance stock award to the Company's Chief Executive Officer in consideration for entering into a new employment agreement. The exercise price for the shares of the Company's common stock underlying the option award is \$88.25, which is equal to 125% of the fair market value of the common stock on the grant date. Subject to the Chief Executive Officer's continued employment with the Company through the applicable vesting date, one-third of the options under the option award will vest and become exercisable on each of January 15, 2018, 2019 and 2020. The performance stock award provides that the number of performance shares earned by the Chief Executive Officer will be based on the Company's achievement of certain performance levels. Subject to the Chief Executive Officer's continued employment, if only the minimum performance level is achieved, then the stock will vest 100% on January 15, 2020, and if any performance level above the minimum level is achieved then the stock will vest 50% on each of January 15, 2019 and 50% on January 15, 2020. Certain performance levels above the minimum level were achieved in the second and third quarters of 2015. As a result, 70,927 shares of the performance stock will vest 50% on each of January 15, 2019 and January 15, 2020. The combined value of the awards as of the date of the grant was \$8 million as determined based on valuations performed by an independent third party using a Monte Carlo simulation model.

In addition to the grants above, the Company granted to employees restricted stock or restricted stock units of 101,097 shares, performance shares with an expected pay-out at target of 28,520 shares of common stock and 669 options to purchase shares of common stock during the six months ended June 30, 2015. The fair value of the restricted stock and performance share awards was based on a weighted-average grant date fair value per share of \$72.13 and \$70.60, respectively. Based on the Black-Scholes option pricing model, the weighted-average fair value for each option granted was \$36.46 per share. The awards vest over a three or five year period and had an aggregate grant date fair value of \$7.3 million.

As of June 30, 2015, the total unrecognized compensation cost related to all non-vested awards was \$22.3 million. That cost is expected to be recognized over a weighted-average period of 2.5 years.

8. Earnings Per Share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(In thousands, except per share amounts)			
Net income	\$24,238	\$18,191	\$48,831	\$35,666
Basic weighted average shares outstanding	36,699	37,015	36,703	37,068
Dilutive effect of stock options and restricted stock	943	927	931	951
Diluted weighted average shares outstanding	37,642	37,942	37,634	38,019
Basic earnings per share	\$0.66	\$0.49	\$1.33	\$0.96
Diluted earnings per share	\$0.64	\$0.48	\$1.30	\$0.94

Stock options and restricted stock totaling 131,329 shares and 51,273 shares for the three months ended June 30, 2015 and 2014, respectively, and 190,588 and 116,832 shares for the six months ended June 30, 2015 and 2014, respectively, were excluded from the computation of diluted earnings per share because their effect would have been antidilutive. The computation of diluted shares can vary among periods due, in part, to the change in the average price of the Company's common stock.

9. Credit Facility

In January 2013, the Company entered into a three-year credit agreement (“Credit Agreement”) that provides for revolving loans and letters of credit up to an aggregate of \$50.0 million (“Credit Facility”). As of June 30, 2015, there was \$49.8 million available to borrow under the Credit Facility. Subject to satisfaction of certain specified conditions, the Company is permitted to upsize the Credit Facility by an additional \$50.0 million in total.

Borrowings under the Credit Facility will bear interest at a rate per annum equal to either of the following, as designated by the Company for each borrowing: (A) the sum of (i) the greatest of (a) the prime rate, as defined, (b) the federal funds effective rate plus 0.50% and (c) one month adjusted LIBOR plus 1.00% plus (ii) 0.50% or (B) the sum of (i) adjusted LIBOR plus (ii) 1.50%. Default interest is 2.00% per annum in excess of the rate otherwise applicable in the case of any overdue principal or any other overdue amount. The Company is also required to pay a commitment fee to the lenders under the Credit Facility in respect of unutilized revolving loan commitments at a rate of 0.30% per annum.

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

The Credit Agreement requires that the Company’s consolidated total leverage ratio tested on the last day of each fiscal quarter not exceed 2.5 to 1.0. The Credit Agreement also requires that the Company’s consolidated interest coverage ratio tested on the last day of each fiscal quarter not fall below 3.5 to 1.0. The Company was in compliance with all applicable covenants at December 31, 2014 and June 30, 2015.

If an event of default occurs, including failure to pay principal or interest due on the loan balance, a voluntary or involuntary proceeding seeking liquidation, change in control of the Company, or one or more judgments against the Company in excess of \$10 million, the lenders would be entitled to accelerate the facility and take various other actions, including all actions permitted to be taken by a secured creditor. If certain bankruptcy events of default occur, the facility will automatically accelerate.

10. Commitments and Contingencies

Lease Commitments

The Company leases office space under non-cancelable lease agreements expiring at various dates through 2027. Office space leases are subject to escalation based on certain costs incurred by the landlord. Minimum rental commitments as of June 30, 2015 under such operating leases were as follows (in thousands):

Remainder of 2015 \$1,224

2016	3,488
2017	3,414
2018	3,135
2019	2,946
2020 and thereafter	12,071
	\$26,278

Rental expense was \$1.9 million for both the six months ended June 30, 2015 and 2014, and is included in occupancy expense in the Consolidated Statements of Operations. Rental expense has been recorded based on the total minimum lease payments after giving effect to rent abatement and concessions, which are being amortized on a straight-line basis over the life of the lease. The Company is contingently obligated for standby letters of credit amounting to \$1.3 million that were issued to landlords for office space.

The Company has assigned two lease agreements on leased properties to separate third parties. The Company is contingently liable should the assignees default on future lease obligations through the lease termination dates of November 2015 and November 2020. The aggregate amount of future lease obligations under these arrangements is \$1.9 million as of June 30, 2015.

Legal Matters

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

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

Other

The Company, through two regulated subsidiaries, executes certain bond transactions between and among institutional investor and broker-dealer clients on a matched principal basis by serving as counterparty to both the buyer and the seller in trades which settle through third-party clearing brokers. Settlement typically occurs within one to three trading days after the trade date. Cash settlement of the transaction occurs upon receipt or delivery of the underlying instrument that was traded. For the six months ended June 30, 2015 and 2014, revenues from matched principal transactions were \$7.4 million and \$2.8 million, respectively. Under securities clearing agreements with the third party clearing brokers, the Company maintains a collateral deposit with each clearing broker in the form of cash. As of June 30, 2015, the amount of the collateral deposits included in prepaid expenses and other assets in the Consolidated Statements of Financial Condition was \$0.9 million. In its role as matched principal counterparty, the Company is exposed to the counterparty credit and settlement risk that arises from the risk that the participants that the Company trades with do not fulfill their obligations to the Company due to bankruptcy, lack of liquidity, operational failure, errors or other reasons. Pursuant to the terms of the securities clearing agreements, the clearing broker has the right to charge the Company for losses resulting from a counterparty's failure to fulfill its contractual obligations. The losses are not capped at a maximum amount and apply to all trades executed through the clearing broker. At June 30, 2015, the Company had not recorded any liabilities with regard to this right.

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

11. Customer Concentration

During both the six months ended June 30, 2015 and 2014, no single client accounted for more than 10% of total revenue. One institutional investor client accounted for 14.5% and 14.9% of trading volumes during the six months ended June 30, 2015 and 2014, respectively.

12. Share Repurchase Program

In January 2014, the Board of Directors of the Company authorized a share repurchase program for up to \$35.0 million of the Company's common stock. In July 2014, the Board of Directors increased the authorization under the share repurchase program by an additional \$65.0 million of the Company's common stock. The share repurchase program will expire on December 31, 2015. For the six months ended June 30, 2015, the Company repurchased 180,400 shares of common stock at a cost of \$14.5 million. As of June 30, 2015, approximately \$47.6 million remains authorized for repurchase under the program. Shares repurchased under the program will be held in treasury for future use.

13. Segment and Geographic Information

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

For the three and six months ended June 30, 2015 and 2014, the U.K. was the only individual foreign country in which the Company had a subsidiary that accounted for 10% or more of the total revenues or total long-lived assets of the Company. Revenues

and long-lived assets are attributed to a geographic area based on the location of the particular subsidiary. Long-lived assets are defined as furniture, equipment, leasehold improvements and capitalized software, net of accumulated depreciation and amortization. Information regarding revenue for the three and six months ended June 30, 2015 and 2014 and long-lived assets as of June 30, 2015 and December 31, 2014 was as follows:

	Three Months Ended June 30, 2015 2014		Six Months Ended June 30, 2015 2014	
	(In thousands)			
Revenues				
United States	\$65,937	\$55,045	\$132,390	\$108,621
United Kingdom	9,200	9,701	19,264	19,359
Other	354	218	608	382
Total	\$75,491	\$64,964	\$152,262	\$128,362

	As of June 30, December 31, 2015 2014	
	(In thousands)	
Long-lived assets, as defined		
United States	\$21,848	\$23,099
United Kingdom	9,418	9,057
Other	24	29
Total	\$31,290	\$32,185

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

Forward-Looking Statements

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

Executive Overview

MarketAxess operates a leading electronic trading platform that enables fixed-income market participants to efficiently trade corporate bonds and other types of fixed-income instruments using our patented trading technology. Our over 1,000 active participant firms include broker-dealer clients, investment advisers, mutual funds, insurance companies, public and private pension funds, bank portfolios and hedge funds. Our approximately 90 broker-dealer market-maker clients provide liquidity on the platform and include most of the leading broker-dealers in global fixed-income trading. We also execute 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. We provide fixed-income market data, analytics and compliance tools that help our clients make trading decisions. We also provide trade matching and regulatory transaction reporting services to the securities markets. In addition, we provide technology solutions and professional consulting services to fixed-income industry participants.

Our multi-dealer trading platform allows our institutional investor clients to simultaneously request competing, executable bids or offers from our broker-dealer clients and execute trades with the broker-dealer of their choice from among those that choose to respond. We offer our broker-dealer clients a solution that enables them to efficiently reach our institutional investor clients for the distribution and trading of bonds. Our 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 derivatives and other fixed-income securities.

Through our Open TradingTM initiative, we have designed a series of protocols to allow our broker-dealers and institutional investor clients to interact in an all-to-all trading environment. These innovative technology solutions are designed to increase the number of potential trading counterparties on our electronic trading platform and create a menu of solutions to address different trade sizes and bond liquidity characteristics.

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

professional and consulting fees, occupancy, marketing and advertising and other general and administrative expenses.

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

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

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- to continue building our existing service offerings so that our electronic trading platform is more fully integrated into the workflow of our broker-dealer and institutional investor clients and to continue to add functionality to allow our clients to achieve a fully automated end-to-end straight-through processing solution (automation from trade initiation to settlement);
- to add new content and analytical capabilities to Corporate BondTicker™ and expand our Trax data service offering to improve the value of the information we provide to our clients; and
- to continue to increase and supplement our internal growth by entering into strategic alliances, or acquiring businesses or technologies that will enable us to enter new markets, provide new products or services, or otherwise enhance the value of our platform to our clients. For example, the acquisition of Xtrakter Limited (“Xtrakter”) in February 2013 provided us with an expanded set of technology solutions ahead of incoming pre- and post-trade transparency mandates from the Markets in Financial Instruments Directive II (“MIFID II”) in Europe. In April 2013, we entered into a strategic alliance with BlackRock, Inc. (“Blackrock”) to create a unified, open trading solution designed to help reduce liquidity fragmentation and improve pricing across U.S. cash credit markets. In January 2015, we expanded this alliance with BlackRock to include European cash credit markets.

Critical Factors Affecting Our Industry and Our Company

Economic, Political and Market Factors

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

Competitive Landscape

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

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

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

Regulatory Environment

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

Following the global financial crisis and other recent events in the financial industry, governments and regulators in both the United States and Europe have called for increased regulation and transparency in the over-the-counter markets. As a result, the Dodd-Frank Act was signed into law in July 2010. Among the most significant aspects of the derivatives section of the Dodd-Frank Act are mandatory clearing of many credit derivative instruments through regulated central clearing organizations and mandatory trading of those instruments through either regulated exchanges or swap execution facilities (“SEFs”), in each case, subject to certain key exceptions. In September 2013, the U.S. Commodity Futures Trading Commission (“CFTC”) granted temporary registration to MarketAxess SEF Corporation, our wholly-owned U.S. subsidiary, to operate a SEF for the trading of swaps subject to the CFTC’s jurisdiction. The CFTC’s rules relating to the trading of swaps on SEFs were implemented in October 2013 and, in February 2014, certain credit derivative indices became subject to the CFTC’s ‘made available for trade’ determination and were thereafter required to be executed on a SEF or designated contract market. The Securities and Exchange Commission (“SEC”) has not yet finalized its rules for security-based SEFs that would govern our execution of single-name credit derivatives, nor has it published a timetable for the

finalization and implementation of such rules. No assurance can be given regarding when, whether or in what form the remaining rules regarding the new regulatory regime for the swaps marketplace will be finalized or implemented.

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

Similar to the U.S., regulatory bodies in Europe are developing new rules for the fixed-income markets. In June 2014, the final texts of MiFID II and Markets in Financial Instruments Regulation ("MiFIR") were published in the Official Journal of the European Union. A large amount of implementation work is left to be completed and the rules of MiFID II and MiFIR will not take effect until January 2017. MiFID II introduces changes in market structure designed: (i) to enhance pre- and post-trade transparency for fixed-income instruments with the scope of the requirements calibrated for liquidity, (ii) increase and enhance post-trade reporting obligations with a requirement to submit post-trade data to Approved Reporting Mechanisms, (iii) ensure trading of certain derivatives occurs on regulated trading venues and (iv) establish a consolidated tape for trade data. We cannot predict the extent to which any of these new regulations or future regulatory changes will impact our European business and operations.

Rapid Technological Changes

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

Trends in Our Business

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

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

We believe that overall corporate bond market trading volume is affected by various factors including the absolute levels of interest rates, the direction of interest rate movements, the level of new issues of corporate bonds and the volatility of corporate bond spreads versus U.S. Treasury securities. Because a significant percentage of our revenue is

tied directly to the volume of securities traded on our platform, it is likely that a general decline in trading volumes, regardless of the cause of such decline, would reduce our revenues and have a significant negative impact on profitability.

Commission Revenue

Commissions are generally calculated as a percentage of the notional dollar volume of bonds traded on our platform and vary based on the type, size, yield and maturity of the bond traded. Under our transaction fee plans, bonds that are more actively traded or that have shorter maturities are generally charged lower commissions, while bonds that are less actively traded or that have longer maturities generally command higher commissions.

U.S. High-Grade Corporate Bond Commissions. Our U.S. high-grade corporate bond fee plans generally incorporate variable transaction fees and distribution fees billed to our broker-dealer clients on a monthly basis. Certain dealers participate in fee programs that do not contain monthly distribution fees and instead incorporate additional per transaction execution fees and minimum monthly

fee commitments. Under the fee plans, we electronically add the transaction fee to the spread quoted by the broker-dealer client. The U.S. high-grade transaction fee is generally designated in basis points in yield and, as a result, is subject to fluctuation depending on the duration of the bond traded. The average U.S. high-grade fees per million may vary in the future due to changes in yield, years-to-maturity and nominal size of bonds traded on our platform.

Other Credit Commissions. Other credit includes emerging markets bonds, high-yield bonds, Eurobonds and structured products bonds. Commissions for other credit products generally vary based on the type of the instrument traded using standard fee schedules. Similar to the U.S. high-grade plans, our European fee plans generally incorporate monthly distribution fees, as well as variable transaction fees.

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

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

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

Other Revenue

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

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

Technology Products and Services. We generate revenue from professional consulting services, technology software licenses and maintenance and support services.

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

Other. Other revenues include fees from telecommunications line charges to broker-dealer clients, initial set-up fees and other miscellaneous revenues.

Expenses

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

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

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

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

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

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

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

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

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

Critical Accounting Policies and Estimates

This Management's Discussion and Analysis of Financial Condition and Results of Operations discusses our Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States, also referred to as U.S. GAAP. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of income and expenses during the reporting periods. We base our estimates and judgments on historical experience and on various other factors that we believe are reasonable under the circumstances. Actual results may differ from these estimates under varying assumptions or conditions. Note 2 of the Notes to our Consolidated Financial Statements includes a summary of the significant accounting policies and methods used in the preparation of our Consolidated Financial Statements. There were no significant changes to our critical accounting policies and estimates during the six months ended June 30, 2015, as compared to those we disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2014.

Recent Accounting Pronouncements

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

Segment Results

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

Results of Operations

Three Months Ended June 30, 2015 Compared to Three Months Ended June 30, 2014

Overview

Total revenues increased by \$10.5 million or 16.2% to \$75.5 million for the three months ended June 30, 2015, from \$65.0 million for the three months ended June 30, 2014. This increase in total revenues was primarily due to higher commissions of \$12.1 million. An 8.9% change in the foreign currency exchange rates of the Pound Sterling compared to the U.S. dollar from the three months ended June 30, 2014 to the three months ended June 30, 2015 had the effect of decreasing revenues by \$0.9 million.

Total expenses increased by \$2.5 million or 7.1% to \$38.4 million for the three months ended June 30, 2015, from \$35.9 million for the three months ended June 30, 2014. This increase was primarily due to higher employee compensation and benefits of \$2.2 million. The change in foreign currency exchange rates had the effect of decreasing expenses by \$1.0 million in the three months ended June 30, 2015.

Income before taxes increased by \$8.0 million or 27.5% to \$37.1 million for the three months ended June 30, 2015, from \$29.1 million for the three months ended June 30, 2014. Net income increased by \$6.0 million or 33.2% to \$24.2 million for the three months ended June 30, 2015, from \$18.2 million for three months ended June 30, 2014.

Revenues

Our revenues for the three months ended June 30, 2015 and 2014, and the resulting dollar and percentage changes, were as follows:

	Three Months Ended June 30,				\$	%
	2015	2014	% of	% of		
	\$	% of	\$	% of	\$	%
	(\$ in thousands)					
Commissions	\$66,412	88.0	% \$54,315	83.6	% \$12,097	22.3
Information and post-trade services	7,632	10.1	7,962	12.3	(330)	(4.1)
Technology products and services	762	1.0	1,987	3.1	(1,225)	(61.7)
Investment income	190	0.2	138	0.2	52	37.7
Other	495	0.7	562	0.8	(67)	(11.9)
Total revenues	\$75,491	100.0	% \$64,964	100.0	% \$10,527	16.2

Commissions. Our commission revenues for the three months ended June 30, 2015 and 2014, and the resulting dollar and percentage changes, were as follows:

	Three Months Ended June 30,		\$	%
	2015	2014		
	(\$ in thousands)			
Variable transaction fees				
U.S. high-grade	\$26,439	\$20,705	\$5,734	27.7
Other credit	23,477	16,936	6,541	38.6
Liquid products	690	641	49	7.6
Total variable transaction fees	50,606	38,282	12,324	32.2
Distribution fees				
U.S. high-grade	14,084	13,771	313	2.3
Other credit	1,467	2,042	(575)	(28.2)
Liquid products	255	220	35	15.9
Total distribution fees	15,806	16,033	(227)	(1.4)
Total commissions	\$66,412	\$54,315	\$12,097	22.3

Variable Transaction Fees

The following table shows the extent to which the increase in variable transaction fees for the three months ended June 30, 2015 was attributable to changes in transaction volumes and variable transaction fees per million:

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	Change from the Three Months Ended June 30, 2014			
	U.S. High-Grade	Other Credit	Liquid Products	Total
	(In thousands)			
Volume increase	\$5,815	\$7,171	\$ 120	\$13,105
Variable transaction fee per million (decrease)	(81)	(630)	(71)	(781)
Total commissions increase	\$5,734	\$6,541	\$ 49	\$12,324

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Our trading volumes for the three months ended June 30, 2015 and 2014 were as follows:

	Three Months Ended June 30,			
	2015	2014	\$ Change	% Change
Trading Volume Data (in millions)				
U.S. high-grade - fixed rate	\$142,459	\$109,970	\$32,489	29.5 %
U.S. high-grade - floating rate	6,504	6,331	173	2.7
Total U.S. high-grade	148,963	116,301	32,662	28.1
Other credit	78,304	55,011	23,293	42.3
Liquid products	17,473	14,725	2,748	18.7
Total	\$244,740	\$186,037	\$58,703	31.6 %
Number of U.S. Trading Days	63	63		
Number of U.K. Trading Days	61	61		

For volume reporting purposes, transactions in foreign currencies are converted to U.S. dollars at average monthly rates. The 28.1% increase in our U.S. high-grade volume was principally due to an increase in our estimated market share of adjusted total U.S. high-grade corporate bond volume as reported by Financial Industry Regulatory Authority (“FINRA”) Trade Reporting and Compliance Engine (“TRACE”) (as adjusted by us to eliminate the increased reporting of affiliate back-to-back trades to FINRA beginning in April 2014 and the inclusion of 144A securities in reported TRACE volumes on July 1, 2014) from 14.0 % for the three months ended June 30, 2014 to 17.0% for the three months ended June 30, 2015. Adjusted FINRA TRACE U.S. high-grade volume increased 5.9% to \$877.4 billion for the three months ended June 30, 2015 from \$828.8 billion for the three months ended June 30, 2014. Based on information provided by FINRA, we believe that the TRACE volumes, as adjusted by us, provide a more accurate comparison to prior period reporting. We have provided a reconciliation of the reported U.S. high-grade TRACE volumes to the adjusted U.S. high-grade TRACE volumes in the “Investor Relations” section of our website.

Other credit volumes increased by 42.3% for the three months ended June 30, 2015 compared to the three months ended June 30, 2014, primarily due to increases of 75% in high-yield bond volume, 71% in Eurobond volume and 18% in emerging markets bond volume. Liquid products volume (excluding credit derivatives) increased by 18.7% for the three months ended June 30, 2015 compared to the three months ended June 30, 2014, due mainly to a gain in our estimated market share of U.S. agency bond volume.

Our average variable transaction fee per million for the three months ended June 30, 2015 and 2014 was as follows:

	Three Months Ended June 30,	
	2015	2014
U.S. high-grade - fixed rate	\$183	\$185
U.S. high-grade - floating rate	51	54
Total U.S. high-grade	177	178
Other credit	300	308
Liquid products	39	44

Total	207	206
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The \$8 decrease in Other credit average variable transaction fee per million was primarily due to a larger percentage of volume in products that carry lower fees per million.

Distribution Fees

The \$0.6 million decrease in Other credit distribution fees principally relates to the migration of certain Eurobond dealers to plans that incorporate a higher level of variable fees and lower level of monthly distribution fees.

Information and Post-Trade Services. Information and post-trade services revenues decreased by \$0.3 million. The change in foreign currency exchange rates had the effect of decreasing information and post-trade services revenue by \$0.6 million. Our transaction reporting business processed approximately 252 million and 294 million transactions for the three months ended June 30, 2015 and 2014, respectively. New data contracts had the effect of increasing information services revenue by \$0.4 million.

Technology Products and Services. Technology products and services revenues decreased by \$1.2 million principally due to the wind-down of a professional consulting service engagement.

Investment Income. Investment income increased by \$0.1 million due to higher investment yields.

Other. Other income decreased by \$0.1 million.

Expenses

Our expenses for the three months ended June 30, 2015 and 2014, and the resulting dollar and percentage changes were as follows:

	Three Months Ended June 30,				\$	%
	2015		2014			
	\$	% of Revenues	\$	% of Revenues	Change	Change
	(\$ in thousands)					
Expenses						
Employee compensation and benefits	\$20,593	27.3 %	\$18,421	28.4 %	\$2,172	11.8 %
Depreciation and amortization	4,603	6.1	4,351	6.7	252	5.8
Technology and communications	3,967	5.3	4,449	6.8	(482)	(10.8)
Professional and consulting fees	3,011	4.0	3,426	5.3	(415)	(12.1)
Occupancy	1,232	1.6	1,102	1.7	130	11.8
Marketing and advertising	1,764	2.3	1,800	2.8	(36)	(2.0)
General and administrative	3,262	4.3	2,344	3.6	918	39.2
Total expenses	\$38,432	50.9 %	\$35,893	55.3 %	\$2,539	7.1 %

Employee Compensation and Benefits. Employee compensation and benefits increased by \$2.2 million primarily due to higher employee incentive compensation of \$1.2 million, which is tied to operating performance, and a \$0.6 million increase in stock-based compensation resulting from higher employee equity awards in 2015.

Depreciation and Amortization. Depreciation and amortization increased by \$0.3 million primarily due to higher amortization of software development costs of \$0.4 million. For the three months ended June 30, 2015 and 2014, \$1.5 million and \$2.1 million, respectively, of equipment purchases and leasehold improvements and \$2.2 million and \$2.4 million, respectively, of software development costs were capitalized.

Technology and Communications. Technology and communications expenses decreased by \$0.5 million mainly due to lower market data and telecommunication costs.

Professional and Consulting Fees. Professional and consulting fees decreased by \$0.4 million mainly due to lower technology consulting costs.

Occupancy. Occupancy costs increased by \$0.1 million.

Marketing and Advertising. Marketing and advertising expenses were \$1.8 million for both the three months ended June 30, 2015 and 2014.

General and Administrative. General and administrative expenses increased by \$0.9 million primarily due to higher clearing and other miscellaneous costs.

Provision for Income Tax. The \$1.9 million increase in the tax provision was primarily attributable to higher pre-tax income offset by a lower effective tax rate. Our consolidated effective tax rate for the three months ended June 30, 2015 was 34.6%, compared to 37.4% for the three months ended June 30, 2014. The decrease was principally due to a shift in income to lower tax jurisdictions and a reduction in statutory foreign and state tax rates. Our consolidated effective tax rate can vary from period to period depending on, among other factors, the geographic mix of our earnings and changes in tax legislation and tax rates.

Six Months Ended June 30, 2015 Compared to Six Months Ended June 30, 2014

Overview

Total revenues increased by \$23.9 million or 18.6% to \$152.3 million for the six months ended June 30, 2015, from \$128.4 million for the six months ended June 30, 2014. This increase in total revenues was primarily due to higher commissions of \$27.1 million. An 8.7% change in the foreign currency exchange rates of the Pound Sterling compared to the U.S. dollar from the six months ended June 30, 2014 to the six months ended June 30, 2015 had the effect of decreasing revenues by \$1.8 million.

Total expenses increased by \$5.1 million or 7.1% to \$76.7 million for the six months ended June 30, 2015, from \$71.6 million for the six months ended June 30, 2014. This increase was primarily due to higher employee compensation and benefits of \$4.7 million. The change in foreign currency exchange rates had the effect of decreasing expenses by \$1.9 million in the six months ended June 30, 2015.

Income before taxes increased by \$18.8 million or 33.1% to \$75.6 million for the six months ended June 30, 2015, from \$56.8 million for the six months ended June 30, 2014. Net income increased by \$13.2 million or 36.9% to \$48.8 million for the six months ended June 30, 2015, from \$35.7 million for six months ended June 30, 2014.

Revenues

Our revenues for the six months ended June 30, 2015 and 2014, and the resulting dollar and percentage changes, were as follows:

	Six Months Ended June 30,							
	2015	% of	2014	% of	\$	%	Change	Change
	\$	Revenues	\$	Revenues				
	(\$ in thousands)							
Commissions	\$133,430	87.6	%\$106,304	82.8	%\$27,126		25.5	%
Information and post-trade services	15,311	10.1	16,041	12.5	(730)		(4.6)	
Technology products and services	2,182	1.4	4,023	3.1	(1,841)		(45.8)	
Investment income	373	0.3	284	0.2	89		31.3	
Other	966	0.6	1,710	1.4	(744)		(43.5)	
Total revenues	\$152,262	100.0	%\$128,362	100.0	%\$23,900		18.6	%

Commissions. Our commission revenues for the six months ended June 30, 2015 and 2014, and the resulting dollar and percentage changes, were as follows:

	Six Months Ended June 30,			
	2015	2014	\$	%
	(\$ in thousands)			
			Change	Change
Variable transaction fees				
U.S. high-grade	\$53,326	\$40,652	\$12,674	31.2 %
Other credit	47,230	31,990	15,240	47.6

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Liquid products	1,391	1,457	(66)	(4.5)
Total variable transaction fees	101,947	74,099	27,848	37.6
Distribution fees				
U.S. high-grade	28,034	27,743	291	1.0
Other credit	2,913	4,194	(1,281)	(30.5)
Liquid products	536	268	268	100.0
Total distribution fees	31,483	32,205	(722)	(2.2)
Total commissions	\$133,430	\$106,304	\$27,126	25.5 %

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Variable Transaction Fees

The following table shows the extent to which the increase in variable transaction fees for the six months ended June 30, 2015 was attributable to changes in transaction volumes and variable transaction fees per million:

	Change from the Six Months Ended June 30, 2014			
	U.S. High-Grade	Other Credit	Liquid Products	Total
	(In thousands)			
Volume increase	\$10,165	\$16,704	\$ 54	\$26,924
Variable transaction fee per million increase (decrease)	2,509	(1,464)	(120)	924
Total commissions increase (decrease)	\$12,674	\$15,240	\$ (66)	\$27,848

Our trading volumes for the six months ended June 30, 2015 and 2014 were as follows:

	Six Months Ended June 30,			
	2015	2014	\$ Change	% Change
Trading Volume Data (in millions)				
U.S. high-grade - fixed rate	\$280,446	\$223,098	\$57,348	25.7 %
U.S. high-grade - floating rate	13,899	12,367	1,532	12.4
Total U.S. high-grade	294,345	235,465	58,880	25.0
Other credit	159,923	105,062	54,861	52.2
Liquid products	34,148	32,929	1,219	3.7
Total	\$488,416	\$373,456	\$114,960	30.8 %
Number of U.S. Trading Days	124	124		
Number of U.K. Trading Days	124	124		

For volume reporting purposes, transactions in foreign currencies are converted to U.S. dollars at average monthly rates. The 25.0% increase in our U.S. high-grade volume was principally due to an increase in our estimated market share of adjusted total U.S. high-grade corporate bond volume as reported by FINRA TRACE (as adjusted by us to eliminate the increased reporting of affiliate back-to-back trades to FINRA beginning in April 2014 and the inclusion of 144A securities in reported TRACE volumes on July 1, 2014) from 13.7% for the six months ended June 30, 2014 to 16.2% for the six months ended June 30, 2015. Adjusted FINRA TRACE U.S. high-grade volume increased 5.4% to \$1.8 trillion for the six months ended June 30, 2015 from \$1.7 trillion for the six months ended June 30, 2014. Based on information provided by FINRA, we believe that the TRACE volumes, as adjusted by us, provide a more accurate comparison to prior period reporting. We have provided a reconciliation of the reported U.S. high-grade TRACE volumes to the adjusted U.S. high-grade TRACE volumes in the "Investor Relations" section of our website.

Other credit volumes increased by 52.2% for the six months ended June 30, 2015 compared to the six months ended June 30, 2014, primarily due to increases of 99% in Eurobond volume, 77% in high-yield bond volume and 24% in emerging markets bond volume. Liquid products volume (excluding credit derivatives) increased by 3.7% for the six months ended June 30, 2015 compared to the six months ended June 30, 2014, due mainly to a gain in our estimated

market share of U.S. agency bond volume.

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Our average variable transaction fee per million for the six months ended June 30, 2015 and 2014 was as follows:

	Six Months Ended June 30,	
	2015	2014
U.S. high-grade - fixed rate	\$ 188	\$ 179
U.S. high-grade - floating rate	48	57
Total U.S. high-grade	181	173
Other credit	295	304
Liquid products	41	44
Total	209	198

The \$8 increase in total U.S. high-grade average variable transaction fee per million was primarily due to an increase in the duration of the bonds traded. The \$9 decrease in Other credit average variable transaction fee per million was primarily due to a larger percentage of volume in products that carry lower fees per million.

Distribution Fees

The \$1.3 million decrease in Other credit distribution fees principally relates to the migration of certain Eurobond dealers to plans that incorporate a higher level of variable fees and a lower level of monthly distribution fees. The \$0.3 million increase in Liquid products distribution fees was due to the commencement of SEF-related revenues in March 2014.

Information and Post-Trade Services. Information and post-trade services revenues decreased by \$0.7 million. The change in foreign currency exchange rates had the effect of decreasing information and post-trade services revenue by \$1.1 million. Our transaction reporting business processed approximately 531 million and 597 million transactions for the six months ended June 30, 2015 and 2014, respectively. New data contracts had the effect of increasing information services revenue by \$0.6 million.

Technology Products and Services. Technology products and services revenues decreased by \$1.8 million principally due to the wind-down of a professional consulting service engagement.

Investment Income. Investment income increased by \$0.1 million due to higher investment yields.

Other. Other income decreased by \$0.7 million due to the recognition of \$0.9 million of income on the sale of certain MF Global bankruptcy claims during the six months ended June 30, 2014.

Expenses

Our expenses for the six months ended June 30, 2015 and 2014, and the resulting dollar and percentage changes were as follows:

	Six Months Ended June 30,	
	2015	2014

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	\$	% of	\$	% of	\$	%
		Revenues		Revenues	Change	Change
	(\$ in thousands)					
Expenses						
Employee compensation and benefits	\$41,767	27.4	% \$37,030	28.8	% \$4,737	12.8
Depreciation and amortization	9,215	6.1	8,472	6.6	743	8.8
Technology and communications	8,305	5.5	8,941	7.0	(636)	(7.1)
Professional and consulting fees	6,293	4.1	7,398	5.8	(1,105)	(14.9)
Occupancy	2,224	1.5	2,191	1.7	33	1.5
Marketing and advertising	2,956	1.9	3,009	2.3	(53)	(1.8)
General and administrative	5,941	3.8	4,542	3.6	1,399	30.8
Total expenses	\$76,701	50.3	% \$71,583	55.8	% \$5,118	7.1

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Employee Compensation and Benefits. Employee compensation and benefits increased by \$4.7 million primarily due to higher employee incentive compensation of \$3.1 million, which is tied to operating performance, and an increase of \$1.4 million in stock-based compensation resulting from higher employee equity awards in 2015.

Depreciation and Amortization. Depreciation and amortization increased by \$0.7 million primarily due to higher amortization of software development costs of \$0.9 million. For the six months ended June 30, 2015 and 2014, \$2.3 million and \$3.8 million, respectively, of equipment purchases and leasehold improvements and \$4.8 million and \$5.0 million, respectively, of software development costs were capitalized.

Technology and Communications. Technology and communications expenses decreased by \$0.6 million mainly due to lower market data costs of \$0.3 million and telecommunication costs of \$0.3 million.

Professional and Consulting Fees. Professional and consulting fees decreased by \$1.1 million mainly due to lower legal fees of \$0.4 million, technology consulting costs of \$0.4 million and recruiting costs of \$0.3 million.

Occupancy. Occupancy costs were \$2.2 million for both the six months ended June 30, 2015 and 2014.

Marketing and Advertising. Marketing and advertising expenses were \$3.0 million for both the six months ended June 30, 2015 and 2014.

General and Administrative. General and administrative expenses increased by \$1.4 million primarily due to higher clearing costs.

Provision for Income Tax. The \$5.6 million increase in the tax provision was primarily attributable to higher pre-tax income offset by a lower effective tax rate. Our consolidated effective tax rate for the six months ended June 30, 2015 was 35.4%, compared to 37.2% for the six months ended June 30, 2014. The decrease was principally due to a shift in income to lower tax jurisdictions and a reduction in statutory foreign and state tax rates. Our consolidated effective tax rate can vary from period to period depending on, among other factors, the geographic mix of our earnings and changes in tax legislation and tax rates.

Liquidity and Capital Resources

During the past three years, we have met our cash needs through cash on hand and internally generated funds. Cash and cash equivalents and securities available-for-sale totaled \$236.8 million at June 30, 2015.

In January 2013, we entered into a three-year credit agreement that provides for revolving loans and letters of credit up to an aggregate of \$50.0 million. As of June 30, 2015, there was \$49.8 million available to borrow under the credit facility. Subject to satisfaction of certain specified conditions, we are permitted to upsize the credit facility by an additional \$50.0 million.

Our cash flows were as follows:

	Six Months Ended June 30,			
	2015	2014	\$ Change	% Change
	(\$ in thousands)			
Net cash provided by operating activities	\$40,595	\$36,412	\$4,183	11.5 %

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Net cash (used in) investing activities	(10,935)	(7,529)	(3,406)	45.2
Net cash (used in) financing activities	(28,824)	(27,501)	(1,323)	4.8
Effect of exchange rate changes on cash and cash equivalents	(497)	(919)	422	(45.9)
Net increase for the period	\$339	\$463	\$(124)	(26.8)%

The \$4.2 million increase in net cash provided by operating activities was primarily due to an increase in net income of \$13.2 million, offset by an increase in working capital of \$9.8 million.

The \$3.4 million increase in net cash used in investing activities was due to an increase in net purchases of securities available-for-sale of \$5.0 million, offset by a decrease in capital expenditures of \$1.6 million.

The \$1.3 million increase in net cash used in financing activities was principally due to an increase in cash dividends paid on common stock of \$2.7 million and increased repurchases of our common stock of \$0.7 million, offset by lower stock-based withholding tax payments and excess tax benefits totaling \$1.9 million.

Free cash flow is defined as cash flow from operating activities less expenditures for furniture, equipment and leasehold improvements and capitalized software development costs. For the 12 months ended June 30, 2015 and 2014, free cash flow was \$100.9 million and \$75.7 million, respectively. Free cash flow is a non-GAAP financial measure. We believe that this non-GAAP financial measure, when taken into consideration with the corresponding GAAP financial measures, is important in gaining an understanding of our financial strength and cash flow generation.

Past trends of cash flows are not necessarily indicative of future cash flow levels. A decrease in cash flows may have a material adverse effect on our liquidity, business and financial condition.

Other Factors Influencing Liquidity and Capital Resources

We believe that our current resources are adequate to meet our liquidity needs and capital expenditure requirements for at least the next 12 months. However, our future liquidity and capital requirements will depend on a number of factors, including expenses associated with product development and expansion and new business opportunities that are intended to further diversify our revenue stream. We may also acquire or invest in technologies, business ventures or products that are complementary to our business. In the event we require any additional financing, it will take the form of equity or debt financing. Any additional equity offerings may result in dilution to our stockholders. Any debt financings, if available at all, may involve restrictive covenants with respect to dividends, issuances of additional capital and other financial and operational matters related to our business.

Certain of our U.S. subsidiaries are registered as a broker-dealer or a SEF and therefore are subject to the applicable rules and regulations of the SEC and the 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 our 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 June 30, 2015, each of our subsidiaries that are subject to these regulations had net capital or financial resources in excess of their minimum requirements. As of June 30, 2015, our subsidiaries maintained aggregate net capital and financial resources that were \$97.1 million in excess of the required levels of \$8.6 million.

Each of our U.S. and foreign regulated subsidiaries are subject to local regulations which generally prohibit repayment of borrowings from our affiliates, paying cash dividends, making loans to our 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.

As of June 30, 2015, the amount of unrestricted cash held by our non-U.S. subsidiaries was \$33.3 million. We have determined that unremitted earnings of our foreign subsidiaries are considered indefinitely reinvested outside of the U.S. Any repatriation of such foreign earnings by way of dividend may be subject to both U.S. federal and state income taxes, reduced by applicable foreign tax credits. However, we do not have any current needs or foreseeable plans to repatriate cash by way of dividends from our non-U.S. subsidiaries.

We execute certain bond transactions between and among institutional investor and broker-dealer clients on a matched principal basis by serving as counterparty to both the buyer and the seller in trades which settle through third-party clearing brokers. Settlement typically occurs within one to three trading days after the trade date. Cash settlement of the transaction occurs upon receipt or delivery of the underlying instrument that was traded. For the six months ended June 30, 2015 and 2014, revenues from matched principal trading were approximately \$7.4 million and \$2.8 million, respectively. Under securities clearing agreements with third party clearing brokers, we maintain a collateral deposit with the clearing broker in the form of cash. As of June 30, 2015, the amount of the collateral deposits included in

prepaid expenses and other assets in the Consolidated Statements of Financial Condition was \$0.9 million. In our role as matched principal counterparty, we are exposed to the counterparty credit and settlement risk that arises from the risk that the participants that we trade with do not fulfill their obligations to us due to bankruptcy, lack of liquidity, operational failure, errors or other reasons. Pursuant to the terms of the securities clearing agreements between us and the clearing brokers, the clearing brokers have the right to charge us for losses resulting from a counterparty's failure to fulfill its contractual obligations. The losses are not capped at a maximum amount and apply to all trades executed through the clearing broker. As of June 30, 2015, we had not recorded any liabilities with regard to this right.

In the ordinary course of business, we enter into contracts that contain a variety of representations, warranties and general indemnifications. Our maximum exposure from any claims under these arrangements is unknown, as this would involve claims that have not yet occurred. However, based on past experience, we expect the risk of material loss to be remote.

In January 2014, our Board of Directors authorized a share repurchase program for up to \$35.0 million of our common stock. In July 2014, our Board of Directors increased the authorization under the share repurchase program by an additional \$65.0 million of

our common stock. For the six months ended June 30, 2015, we repurchased 180,400 shares of common stock at a cost of \$14.5 million. As of June 30, 2015, approximately \$47.6 million remains authorized for repurchase under the program. Shares repurchased under the program will be held in treasury for future use. The share repurchase program will expire on December 31, 2015.

In July 2015, our Board of Directors approved a quarterly cash dividend of \$0.20 per share payable on August 20, 2015 to stockholders of record as of the close of business on August 6, 2015. We expect the total amount payable to be approximately \$7.4 million. Any future declaration and payment of dividends will be at the sole discretion of our Board of Directors. Our Board of Directors may take into account such matters as general business conditions, our financial results, capital requirements, contractual obligations, legal, and regulatory restrictions on the payment of dividends to our stockholders or by our subsidiaries to their respective parent entities, and such other factors as the Board of Directors may deem relevant.

Effects of Inflation

Because the majority of our assets are short-term in nature, they are not significantly affected by inflation. However, the rate of inflation may affect our expenses, such as employee compensation, office leasing costs and communications expenses, which may not be readily recoverable in the prices of our services. To the extent inflation results in rising interest rates and has other adverse effects on the securities markets, it may adversely affect our financial condition and results of operations.

Contractual Obligations and Commitments

In March 2015, we entered a lease for additional office space in New York City. The lease expires in April 2018. The total rental commitment over the lease term is approximately \$1.6 million.

Other than as discussed above, our contractual obligations and commitments did not change significantly since December 31, 2014.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Market risk is the risk of loss resulting from adverse changes in market rates and prices, such as interest rates and foreign currency exchange rates.

Market Risk

The global financial services business is, by its nature, risky and volatile and is directly affected by many national and international factors that are beyond our control. Any one of these factors may cause a substantial decline in the U.S. and global financial services markets, resulting in reduced trading volume and revenues. These events could have a material adverse effect on our business, financial condition and results of operations.

As of June 30, 2015, we had a \$67.5 million investment in securities available-for-sale. Adverse movements, such as a 10% decrease in the value of these securities or a downturn or disruption in the markets for these securities, could result in a substantial loss. In addition, principal gains and losses resulting from these securities could on occasion have a disproportionate effect, positive or negative, on our financial condition and results of operations for any particular reporting period.

Interest Rate Risk

Interest rate risk represents our exposure to interest rate changes with respect to the money market instruments and fixed-income securities in which we invest. As of June 30, 2015, our cash and cash equivalents and securities available-for-sale amounted to \$236.8 million and were primarily in money market instruments, corporate bonds and municipal securities. We do not maintain an inventory of bonds that are traded on our platform.

Derivative Risk

Our limited derivative risk stems from our activities in the foreign currency forward contract market. We use this market to mitigate our U.S. dollar versus Pound Sterling exposure that arises from the activities of our U.K. subsidiaries. As of June 30, 2015, the notional fair value of our foreign currency forward contract was \$38.2 million. We do not speculate in any derivative instruments.

Credit Risk

Two of our subsidiaries, MarketAxess Corporation and MarketAxess Europe Limited, act as a matched principal counterparty in certain transactions that we execute between participants on our platform in connection with our Open Trading™ or other anonymous

protocols. We act as an intermediary in these transactions by serving as counterparty to both the buyer and the seller in trades which then settle through a third-party clearing broker. Settlement typically occurs within one to three trading days after the trade date. Cash settlement of the transaction occurs upon receipt or delivery of the underlying instrument that was traded.

In our role as matched principal counterparty, we are exposed to the counterparty credit and settlement risk that arises from the risk that the participants that we trade with will not perform their obligations to us. These parties may default on their obligations to us due to bankruptcy, lack of liquidity, operational failure, errors or other reasons. Adverse movements in the prices of securities that are the subject of these transactions can increase our risk. If a party fails to perform their settlement obligations to us for a prolonged period, there may also be financing costs or regulatory capital charges required to be taken by us. In connection with Open Trading™ or other anonymous protocols, we expect that the number of transactions in which we act as a matched principal will increase.

We have policies and procedures in place to identify and manage our credit risk. In connection with the recent growth of our Open Trading™ protocols, we are also developing additional automated controls to help us manage our credit risk exposure. There can be no assurance that the policies, procedures and automated controls we use to manage this credit risk will effectively mitigate our credit risk exposure. Some of our risk management procedures are reliant upon the evaluation of information regarding the fixed-income markets, our clients or other relevant matters that are publicly available or otherwise acquired from third party sources. Such information may not be accurate, complete, up-to-date or properly assessed and interpreted by us. If our risk management procedures fail, our business, financial condition and results of operations may be adversely affected. Furthermore, our insurance policies are unlikely to provide coverage for such risks.

Cash and cash equivalents includes cash and money market instruments that are primarily maintained at one major global bank. Given this concentration, we are exposed to certain credit risk in relation to our deposits at this bank.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures. Our management, including the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our “disclosure controls and procedures,” as that term is defined in Rule 13a-15(e) and Rule 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), as of June 30, 2015. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures are effective to ensure that information required to be disclosed by MarketAxess in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and to ensure that information is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

(b) Changes in Internal Control over Financial Reporting. There were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) and Rule 15d-15(f) under the Exchange Act) during the quarter ended June 30, 2015 identified in connection with the evaluation thereof by our management, including the Chief Executive Officer and Chief Financial Officer, that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II — Other Information

Item 1. Legal Proceedings

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

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

Item 1A. Risk Factors

There have been no material changes in our risk factors from those disclosed in our most recent Form 10-K for the year ended December 31, 2014. For a discussion of the risk factors affecting the Company, see “Risk Factors” in Part I, Item 1A of our 2014 Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Recent Sales of Unregistered Securities

None.

Issuer Purchases of Equity Securities

During the quarter ended June 30, 2015, we repurchased the following shares of common stock:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly	Dollar Value of Shares That May Yet Be Purchased
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			Announced Plans	Under the Plans
			and Programs	and Programs (In thousands)
April 1, 2015-- April 30, 2015	21,000	\$ 86.99	21,000	\$ 51,260
May 1, 2015 -- May 31, 2015	20,000	86.67	20,000	49,527
June 1, 2015 -- June 30, 2015	22,000	89.31	22,000	47,562
	63,000	\$ 87.70	63,000	

In January 2014, our Board of Directors authorized a share repurchase program for up to \$35.0 million of our common stock. In July 2014, our Board of Directors increased the authorization under the share repurchase program by an additional \$65.0 million of our common stock. The share repurchase program will expire on December 31, 2015. For the six months ended June 30, 2015, we repurchased 180,400 shares of common stock at a cost of \$14.5 million. Shares repurchased under the program will be held in treasury for future use.

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit Listing:

Number	Description
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31.1	Certification by Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
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31.2	Certification by Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
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32.1	Certification by Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
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32.2	Certification by Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
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101.INS XBRL Instance Document**

101.SCH XBRL Taxonomy Extension Schema Document**

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document**

101.LAB XBRL Taxonomy Extension Label Linkbase Document**

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document**

101.DEF XBRL Taxonomy Extension Definition Linkbase Document**

** Attached as Exhibit 101 to this Quarterly Report on Form 10-Q are the following materials, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Statements of Financial Condition as of June 30, 2015 and December 31, 2014; (ii) Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2015 and 2014; (iii) Consolidated Statements of Comprehensive Income for the Three and Six Months Ended June 30, 2015 and 2014; (iv) Consolidated Statement of Stockholders' Equity for the Six Months Ended June 30, 2015; (v) Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2015 and 2014; and (vi) Notes to the Consolidated Financial Statements.

Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MARKETAXESS HOLDINGS INC.

Date: July 24, 2015 By: /s/ RICHARD M. MCVEY
Richard M. McVey
Chief Executive Officer
(principal executive officer)

Date: July 24, 2015 By: /s/ ANTONIO L. DELISE
Antonio L. DeLise
Chief Financial Officer
(principal financial and accounting officer)