MARKETAXESS HOLDINGS INC
Form 10-Q
October 28, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2016

or

TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number 001-34091

MARKETAXESS HOLDINGS INC.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	52-2230784 (IRS Employer Identification No.)
299 Park Avenue, 10th Floor New York, New York	10171

(Address of principal executive offices) (Zip Code)

(212) 813-6000

(Registrant's telephone number, including area code)

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

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

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

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

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

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

MARKETAXESS HOLDINGS INC.

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

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Item 1. Financial Statements

MARKETAXESS HOLDINGS INC.

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(Unaudited)

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

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

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

MARKETAXESS HOLDINGS INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

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

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

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MARKETAXESS HOLDINGS INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

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

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

MARKETAXESS HOLDINGS INC.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(Unaudited)

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

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

MARKETAXESS HOLDINGS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

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

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

MARKETAXESS HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Organization and Principal Business Activity

MarketAxess Holdings Inc. (the “Company” or “MarketAxess”) was incorporated in the State of Delaware on April 11, 2000. Through its subsidiaries, MarketAxess operates a leading electronic trading platform that enables fixed-income market participants to efficiently trade corporate bonds and other types of fixed-income instruments using MarketAxess' patented trading technology. Over 1,100 institutional investor and broker-dealer firms are active users of the MarketAxess trading platform, accessing global liquidity in U.S. high-grade corporate bonds, emerging markets and high-yield bonds, European bonds, U.S. agency bonds, municipal bonds, credit default swaps and other fixed-income securities. Through its Open Trading™ protocols, MarketAxess executes certain bond transactions between and among institutional investor and broker-dealer clients on a matched principal basis by serving as counterparty to both the buyer and the seller in trades which then settle through a third-party clearing broker. MarketAxess also offers a number of trading-related products and services, including: market data to assist clients with trading decisions; connectivity solutions that facilitate straight-through processing; technology services to optimize trading environments; and execution services for exchange-traded fund managers and other clients. Through its Trax® division, MarketAxess also offers a range of pre- and post-trade services, including trade matching, regulatory transaction reporting and market and reference data, across a range of fixed-income and other products.

2. Significant Accounting Policies

Basis of Presentation

The consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany transactions and balances have been eliminated. These consolidated financial statements are unaudited and should be read in conjunction with the audited consolidated financial statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015. The consolidated financial information as of December 31, 2015 has been derived from audited financial statements not included herein. These unaudited consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) and the rules and regulations of the U.S. Securities and Exchange Commission (“SEC”) with respect to Form 10-Q and reflect all adjustments that, in the opinion of management, are normal and recurring, and that are necessary for a fair statement of the results for the interim periods presented. In accordance with such rules and regulations, certain disclosures that are normally included in annual financial statements have been omitted. Interim period operating results may not be indicative of the operating results for a full year.

Cash and Cash Equivalents

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

Investments

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

The Company assesses whether an other-than-temporary impairment loss on the available-for-sale investments has occurred due to declines in fair value or other market conditions. The portion of an other-than-temporary impairment related to credit loss is recorded as a charge in other income in the Consolidated Statements of Operations. The remainder is recognized in accumulated other comprehensive loss if the Company does not intend to sell the security and it is more likely than not that the Company will not be required to sell the security prior to recovery. No charges for other-than-temporary losses were recorded during the nine months ended September 30, 2016 and 2015.

Fair Value Financial Instruments

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

Allowance for Doubtful Accounts

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

Depreciation and Amortization

Fixed assets are carried at cost less accumulated depreciation. The Company uses the straight-line method of depreciation over three to seven years. The Company amortizes leasehold improvements on a straight-line basis over the lesser of the life of the improvement or the remaining term of the lease.

Software Development Costs

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

Cash Provided as Collateral

Cash is provided as collateral for broker-dealer clearing accounts. Cash provided as collateral is included in prepaid expenses and other assets in the Consolidated Statements of Financial Condition.

Foreign Currency Translation and Forward Contracts

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

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

Revenue Recognition

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

Commission revenue. Commissions are generally calculated as a percentage of the notional dollar volume of bonds traded on the platform and vary based on the type, size, yield and maturity of the bond traded. Under the Company's transaction fee plans, bonds that are more actively traded or that have shorter maturities are generally charged lower commissions, while bonds that are less actively traded or that have longer maturities generally command higher commissions. For trades that the Company executes between and among institutional investor and broker-dealer clients on a matched principal basis by serving as counterparty to both the buyer and the seller, the Company earns the commission through the difference in price between the two matched principal trades. Fee programs for certain products include distribution fees which are recognized monthly.

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

Technology products and services. The Company generates revenues from professional consulting services, technology software licenses and maintenance and support services. Revenue is generally recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable and collection is considered probable. Technology products and services revenue is reported in other income in the Consolidated Statements of Operations.

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

Stock-Based Compensation

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

Income Taxes

Income taxes are accounted for using the asset and liability method. Deferred income taxes reflect the net tax effects of temporary differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when such differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recognized against deferred tax assets if it is more likely than not that such assets will not be realized in future years. The Company recognizes interest and penalties related to unrecognized tax benefits in general and administrative expenses in the Consolidated Statements of Operations.

Business Combinations, Goodwill and Intangible Assets

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

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

Earnings Per Share

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

Use of Estimates

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

Out-of-Period Adjustments

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

Recent Accounting Pronouncements

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

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

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

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

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

In March 2016, the FASB issued ASU 2016-02, "Leases" ("ASU 2016-02"). The guidance affects the accounting for leases and provides for a lessee model that brings substantially all leases onto the balance sheet. ASU 2016-02 will be effective for the Company beginning January 1, 2019 and early adoption is permitted. The Company is currently in the process of determining the method of adoption and assessing the impact of ASU 2016-02 on the Company's Consolidated Financial Statements.

3. Net Capital Requirements

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

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

4. Fair Value Measurements

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

	Level 1	Level 2	Level 3	Total
	(In thousands)			
As of September 30, 2016				
Money market funds	$37,609	$—	$ —	$37,609
Securities available-for-sale				
Corporate debt	—	94,781	—	94,781
Trading securities				
Corporate debt	—	74,546	—	74,546
Mutual funds held in rabbi trust	—	1,328	—	1,328
Foreign currency forward position	—	318	—	318
Total	$37,609	$170,973	$ —	$208,582
As of December 31, 2015				
Money market funds	$61,913	$—	$ —	$61,913
Securities available-for-sale				

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

Securities classified within Level 2 were valued using a market approach utilizing prices and other relevant information generated by market transactions involving comparable assets. The foreign currency forward contracts are classified within Level 2 as the valuation inputs are based on quoted market prices. The mutual funds held in a rabbi trust represent investments associated with the deferred cash incentive plan. See Note 14 to these Consolidated Financial Statements for further discussion of the deferred cash incentive plan. There were no financial assets classified within Level 3 during the nine months ended September 30, 2016 and 2015.

The Company enters into foreign currency forward contracts to hedge the net investment in the Company's U.K. subsidiaries. The Company designates each foreign currency forward contract as a hedge and assesses the risk management objective and strategy, including identification of the hedging instrument, the hedged item and the risk exposure and how effectiveness is to be assessed prospectively and retrospectively. These hedges are for a one-month period and are used to limit exposure to foreign currency exchange rate fluctuations. The fair value of the asset is included in prepaid expenses and other assets and the fair value of the liability is included in accounts payable, accrued expenses and other liabilities in the Consolidated Statements of Financial Condition. Gains or losses on foreign currency forward contracts designated as hedges are included in accumulated other comprehensive loss in the Consolidated Statements of Financial Condition. A summary of the Company's foreign currency forward position is as follows:

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

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

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

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

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

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

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

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

	Less than Twelve Months		Twelve Months or More		Total	
	Estimated fair value	Gross unrealized losses	Estimated fair value	Gross unrealized losses	Estimated fair value	Gross unrealized losses
	(In thousands)					
As of September 30, 2016						
Corporate debt	$49,177	$ (41)	$2,000	$ (9)	$51,177	$ (50)
As of December 31, 2015						
Corporate debt	$70,651	$ (270)	$—	$ —	$70,651	$ (270)

5. Goodwill and Intangible Assets

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

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

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

6. Income Taxes

The provision for income taxes consists of the following:

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

The Company or one of its subsidiaries files U.S. federal, state and foreign income tax returns. Income tax returns for U.S. Federal (through 2013), New York City (through 2003) and state (through 2009) and Connecticut state (through 2003) have been audited. An examination of New York State tax returns for 2010 through 2012 is currently underway. The Company cannot estimate when the examinations will conclude or the impact such examinations will have on the Company's Consolidated Financial Statements, if any.

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

7. Stock-Based Compensation Plans

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

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

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

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

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

8. Earnings Per Share

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

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

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

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

9. Credit Agreement

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

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

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

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

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

10. Commitments and Contingencies

Lease Commitments

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

Remainder of 2016 $821