

Dealerweb Inc.

(SEC I.D. No. 8-38103)

**STATEMENT OF FINANCIAL CONDITION AS OF DECEMBER 31, 2020
AND REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING
FIRM**

**Filed pursuant to Rule 17a-5(e)(3) under the Securities Exchange Act of
1934 as a PUBLIC DOCUMENT**

Dealerweb Inc.
Index
December 31, 2020

Report of Independent Registered Public Accounting Firm	1
Financial Statement	
Statement of Financial Condition	2
Notes to Financial Statements	3-10



Deloitte & Touche LLP
30 Rockefeller Plaza
New York, NY 10112-0015
USA

Tel: +1 212 492 4000
Fax: +1 212 489 1687
www.deloitte.com

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Managers and Stockholder of Dealerweb Inc.

Opinion on the Financial Statement

We have audited the accompanying statement of financial condition of Dealerweb Inc. (the "Company") as of December 31, 2020, and the related notes (collectively referred to as the "financial statement"). In our opinion, the financial statement presents fairly, in all material respects, the financial position of the Company as of December 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

The financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement, whether due to error or fraud.

Our audit included performing procedures to assess the risks of material misstatement of the financial statement, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statement. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statement. We believe that our audit of the financial statement provides a reasonable basis for our opinion.

A handwritten signature in dark ink that reads "Deloitte & Touche LLP". The signature is written in a cursive, flowing style.

March 1, 2021

We have served as the Company's auditor since 2019.

Dealerweb Inc.
Statement of Financial Condition
December 31, 2020 (in thousands)

Assets

Cash and cash equivalents	\$	82,937
Cash segregated under federal regulations		1,000
Receivables from brokers and dealers and clearing organizations net of allowance for credit losses of \$1		10,295
Deposits with clearing organizations		9,362
Right-of-use assets		626
Memberships in clearing organizations		1,586
Receivable from parent and affiliates		1,722
Deferred tax asset		10,319
Accrued income		552
Other assets		3,140
Total assets	\$	<u>121,539</u>

Liabilities and Stockholder's Equity

Liabilities

Payable to brokers and dealers and clearing organizations	\$	1,306
Accrued compensation		23,277
Accounts payable, accrued expenses and other liabilities		4,158
Lease liability		661
Payable to parent and affiliates		<u>3,412</u>
Total liabilities		32,814

Stockholder's Equity

Class A common stock, \$0.01 par value, 250,000 shares authorized, 211,676 issued and 177,840 outstanding as of December 31, 2020		1
Class B common stock, \$0.01 par value, 50,000 shares authorized, 15,519 issued and 13,333 outstanding as of December 31, 2020		-
Additional paid-in capital		60,941
Retained earnings		<u>52,410</u>
		113,352
Common stock in treasury, at cost (36,022 shares)		(24,627)
Total equity		<u>88,725</u>
Total liabilities and stockholder's equity	\$	<u>121,539</u>

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

Dealerweb Inc.

Notes to Statement of Financial Condition

December 31, 2020

1. Nature of Operations

Dealerweb Inc. (the "Company") is a registered broker-dealer under the Securities Exchange Act of 1934, a member of the Financial Industry Regulatory Authority ("FINRA"), a registered independent introducing broker with the Commodity Futures Trading Commission ("CFTC") and a member of the National Futures Association ("NFA"). The Company operates as a broker's broker primarily in the purchase and sale of United States government and government agency mortgage-backed securities, United States Treasury bills, notes and bonds, repurchase agreements, collateralized mortgage obligations and municipal securities. The Company operates an electronic trading system primarily for U.S. Treasury and Agency mortgage-backed securities.

Dealerweb Inc. is a wholly-owned subsidiary of Tradeweb IDB Markets, Inc. (the "Parent"). The Parent is a wholly-owned subsidiary of Tradeweb Markets LLC ("Markets"). On April 3, 2019, Markets became a consolidating subsidiary of Tradeweb Markets Inc. ("TWMI") through a series of reorganization transactions ("Reorganization Transactions") that were completed in connection with TWMI's initial public offering ("IPO") which was completed on April 8, 2019.

2. Significant Accounting Policies

The following is a summary of significant accounting policies:

Basis of Accounting

The financial statement has been presented in conformity with accounting principles generally accepted in the United States of America.

Use of Estimates

The preparation of the Company's financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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 amounts could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents consists of cash and highly liquid investments (such as short-term money market instruments) with original maturities of less than three months.

Revenue Recognition

The Company earns commission revenue from its electronic and voice brokerage services on a riskless principal basis. Securities transactions and related commission revenue for brokerage transactions are recognized and recorded on a trade-date basis.

Correction of Errors

During 2020, the Company identified and corrected errors in the classification of stock-based compensation, payroll taxes paid for stock-based compensation and capital contributions from the Parent that increased additional paid-in capital by \$7.6 million and decreased retained earnings by \$7.6 million. This correction has no impact on the calculation of net capital in the current or prior periods.

Dealerweb Inc.
Notes to Statement of Financial Condition
December 31, 2020

Fair Value Measurement

The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the exit price). Instruments that the Company owns (long positions) are marked to bid prices, and instruments that the Company has sold, but not yet purchased (short positions) are marked to offer prices. Fair value measurements do not include transaction costs.

The fair value hierarchy under ASC 820, *Fair Value Measurement*, prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Financial Instruments Measured at Fair Value

The Company's financial instruments measured at fair value on the financial statements as of December 31, 2020, in thousands, have been categorized based upon the fair value hierarchy as follows:

	Quoted Prices in active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
As of December 31, 2020				
Assets				
Money market funds	58,000	-	-	58,000
	<u>\$ 58,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 58,000</u>

The Company's money market funds are classified within level 1 of the fair value hierarchy because they are valued using quoted market prices in active markets.

Financial Instruments Not Measured at Fair Value

The Company's financial instruments not measured at fair value on the financial statements as of December 31, 2020, in thousands, have been categorized based upon the fair value hierarchy as follows:

Dealerweb Inc.
Notes to Statement of Financial Condition
December 31, 2020

	Carrying Value	Quoted Prices in active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
<u>As of December 31, 2020</u>					
Assets					
Cash	\$ 24,937	\$ 24,937	\$ -	\$ -	\$ 24,937
Cash segregated under federal regulations	1,000	1,000	-	-	1,000
Receivable from brokers and dealers and clearing organizations	10,295	-	10,295	-	10,295
Deposits with clearing organizations	9,362	9,362	-	-	9,362
Memberships in clearing organizations	1,586	-	-	1,586	1,586
	<u>\$ 47,181</u>	<u>\$ 35,300</u>	<u>\$ 10,295</u>	<u>\$ 1,586</u>	<u>\$ 47,181</u>
Liabilities					
Payable to brokers and dealers and clearing organizations	\$ 1,306	\$ -	\$ 1,306	\$ -	\$ 1,306
	<u>\$ 1,306</u>	<u>\$ -</u>	<u>\$ 1,306</u>	<u>\$ -</u>	<u>\$ 1,306</u>

The carrying value of financial instruments not measured at fair value classified within level 1 or level 2 of the fair value hierarchy approximates fair value because of the relatively short term nature of the underlying assets or liabilities. The memberships in clearing organizations is classified within level 3 of the fair value hierarchy because the valuation requires assumptions that are both significant and unobservable.

Recent Accounting Pronouncements – Adopted

In June 2016, the Financial Accounting Standards Board (“FASB”) issued ASU 2016 13, Financial Instruments – Credit Losses. The ASU provides new guidance for estimating credit losses on certain types of financial instruments by introducing an approach based on expected losses. This requires a modified retrospective method of adoption. ASU 2016 13 was adopted on January 1, 2020. The adoption of this ASU did not have a material impact on the Company’s financial statement.

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*. The amendments in this ASU simplify the accounting for income taxes by removing certain exceptions for investments, intraperiod allocations and interim calculations and include additional guidance in order to reduce complexity in accounting for income taxes. ASU 2019-12 is effective for annual periods beginning after December 15, 2020, with early adoption permitted. ASU 2019-12 was early adopted on January 1, 2020 and the adoption of this ASU did not have a material impact on the Company’s financial statements.

Translation of Foreign Currency

Assets and liabilities denominated in foreign currencies are translated at the rate prevailing at the statement of financial condition date.

Income Taxes

The Company is subject to U.S. federal, state and local income taxes with respect to its taxable income. The Company is included in the consolidated federal income tax return and combined state income tax returns with its Parent. The Parent makes income tax payments and charges the subsidiary for its share of the expense, which is computed as if the subsidiary filed separate tax returns. The tax benefits of consolidation are reflected in the Parent’s results of operations.

The Company currently records deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets

Dealerweb Inc.
Notes to Statement of Financial Condition
December 31, 2020

and liabilities and measures the deferred taxes using the enacted tax rates and laws that will be in effect when such temporary differences are expected to reverse. The Company believes that it is more likely than not that it will be able to realize its deferred tax assets in the future; therefore, no valuation allowance is necessary.

The Company records uncertain tax positions in accordance with ASC 740, Income Taxes on the basis of a two-step process whereby (i) the Company determines whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and (ii) for those tax positions that meet the more-likely-than-not recognition threshold, the Company recognizes the amount of tax benefit that is more than 50 percent likely to be realized upon ultimate settlement with the related tax authority. Accrued interest and penalties are included within accounts payable, accrued expenses and other liabilities in the statement of financial condition.

Stock Based Compensation

The Company accounts for stock-based compensation in accordance with ASC 718, Compensation-Stock Compensation. ASC 718 focuses primarily on accounting for a transaction in which an entity obtains employee services in exchange for stock-based payments. Under ASC 718, the stock-based payments received by the employees of the Company are accounted for either as equity awards or as liability awards.

As an equity award, the Company measures and recognizes the cost of employee services received in exchange for awards of equity instruments based on their estimated fair values measured as of the grant date. These costs are recognized as an expense over the requisite service period with an offsetting increase to retained earnings.

As a liability award, the cost of employee services received in exchange for an award of equity instruments is generally measured based on the grant-date fair value of the award. The fair value of that award is remeasured subsequently at each reporting date through the settlement in accordance with ASC 505, Equity. Changes in the equity instrument's fair value during the requisite service period are recognized as compensation cost over that period with an offsetting increase to retained earnings. For periods following the Reorganization Transactions and the IPO, the fair value of new equity instrument grants is determined based on the price of TWMI's Class A common stock on the grant date.

Under ASC 718, the grant-date fair value of stock-based awards that do not require future service (i.e., vested awards) are expensed immediately. The grant-date fair value of stock-based awards that require future service, and are graded-vesting awards, are amortized over the relevant service period on a straight-line basis, with each tranche separately measured. The grant-date fair value of stock-based awards that require both future service and the achievement of performance-based conditions for TWMI, are amortized over the relevant service period for the performance-based condition. If in a reporting period it is determined that the achievement of a performance target for a performance-based tranche is not probable, then no expense is recognized for that tranche and any expenses already recognized relating to that tranche in prior reporting periods are reversed in the current reporting period.

Prior to the IPO, the TWMI awarded options to management and other employees, including employees of the Company (collectively, the "Special Option Award") under the Amended and Restated Tradeweb Markets Inc. Option Plan (the "Option Plan"). In accounting for the options issued under the Option Plan, compensation expense is measured and recognized for all awards based on their estimated fair values measured as of the grant date. Costs related to these options are recognized as an expense in the statement of income over the requisite service period, with an offsetting increase to retained earnings.

Dealerweb Inc.
Notes to Statement of Financial Condition
December 31, 2020

Determining the appropriate fair value model and calculating the fair value of the stock-based awards requires the input of highly subjective assumptions, including the expected life of the stock-based awards and the stock price volatility. The Company uses the Black-Scholes pricing model to value some of its stock-based awards.

Business Segments

The Company's operations constitute a single business segment derived substantially in the United States of America.

3. Cash and Cash Equivalents

At December 31, 2020, cash and cash equivalents include an investment in money market funds of \$58,000,000 with a major financial institution. Due to the short-term liquid nature of these instruments, the recorded value has been determined to approximate fair value. The money market fund is classified within level 1 of the fair value hierarchy.

4. Deposits With Clearing Organizations

Deposits with clearing organizations consists of cash of \$9,362,000.

5. Cash Segregated Under Federal Regulations

Cash has been segregated in a special reserve bank account for the benefit of brokers and dealers under SEC Rule 15c3-3. The Company computes a proprietary accounts of other broker-dealers ("PAB") reserve, which requires the Company maintain minimum segregated cash in the amount of total credits per the Reserve Computation. As of December 31, 2020 cash in the amount of \$1,000,000 has been segregated in the PAB reserve account exceeding the requirements pursuant to SEC Rule 15c3-3.

6. Receivable from and Payable to Brokers and Dealers and Clearing Organizations

Receivable from and payable to brokers and dealers and clearing organizations consists of proceeds from transactions which failed to settle due to the inability of a transaction party to deliver or receive the transacted security. These securities transactions are generally collateralized by those securities. At times, transactions executed on the Company's platforms fail to settle due to the inability of a transaction party to deliver or receive the transacted security. Until the failed transaction settles, a receivable from (and a matching payable to) brokers and dealers and clearing organizations is recognized for the proceeds from the unsettled transaction. In addition to fails, receivables from and payable to brokers and dealers and clearing organizations includes commissions receivable and other receivables and payables. The Company may be exposed to credit risk regarding its receivables, which are primarily receivable from financial institutions, including banks and broker/dealers. At December 31, 2020, the Company maintained an allowance for credit losses of \$1,000 with regard to these receivables.

7. Leases

Effective January 1, 2019, the Company adopted ASC 842, Leases. This standard requires the Company to recognize a right-of-use asset and a lease liability for all leases with an initial term in excess of twelve months. The Company accounts for an option to extend a lease when the option is reasonably certain to be exercised. The asset reflects the present value of future minimum lease payments coupled with initial direct costs, prepaid lease payments and lease incentives. The amount of the lease liability is calculated as the present value of future minimum lease payments.

Dealerweb Inc.
Notes to Statement of Financial Condition
December 31, 2020

The Company adopted ASC 842 using a modified retrospective approach and did not restate comparative periods. The Company elected to take the package of practical expedients allowing the Company to not reassess (i) whether any expired or existing contracts are or contain leases, (ii) the lease classification for any expired or existing leases and (iii) initial direct costs for any existing leases. The Company has elected to account for non-lease components in a contract as part of the single lease component to which they are related.

Significant assumptions and judgements in calculating the right-of-use assets and lease liability include the determination of the applicable borrowing rate for each lease.

Activity related to the Company's leases for the year ended December 31, 2020, in thousands, is as follows:

	Amount
Cash for amounts included in the measurement of operating liability	\$ 370
Right-of-use assets obtained in exchange for operating liabilities	\$ -

At December 31, 2020 the weighted average borrowing rate and weighted average lease terms are as follows:

	Amount
Weighted average borrowing rate	3.3%
Weighted average remaining lease term (years)	2.1

The following table presents the maturity of lease liabilities as of December 31, 2020:

	Amount
2021	\$ 342
2022	332
2023	28
Total future minimum lease payments	702
Less imputed interest	(22)
Lease liability	\$ 680

8. Commitments and Contingencies

The Company has been named as a defendant, along with other financial institutions, in antitrust actions (consolidated into two actions) relating to trading practices in United States Treasury securities auctions. The Company has filed a motion to dismiss the actions, believes it has substantial defenses to other plaintiffs' claims and intends to defend itself vigorously. At this time, the Company cannot reasonably predict the timing or outcomes of, or estimate the amount of loss, or range of loss, if any, related to its pending legal proceedings, including the matters described above, and therefore does not have any contingency reserves established for any of these matters.

9. Income Taxes

The Company uses the asset and liability method to calculate deferred tax assets and liabilities in accordance with FASB ASC 740. Deferred taxes are recognized based on the differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases using enacted tax rates expected to apply to taxable income in the years in which those differences are expected to be recovered or settled.

Dealerweb Inc.

Notes to Statement of Financial Condition

December 31, 2020

The components of the Company's deferred tax assets of \$10.3 million is composed primarily of future tax benefits of \$8.2 million related to goodwill and intangibles and \$2.3 million related to employee compensation.

At December 2020, the total amount of unrecognized tax benefits, including interest and penalties was \$0.7 million. The Company does not anticipate any significant changes to its total unrecognized tax benefits within the next twelve months.

10. Stock Based Compensation Plans

TWMI and Markets have stock incentive plans which provide for the grant of performance-based restricted share units ("PRSUs"), restricted share units ("RSUs") and options, to encourage employees of Markets and its subsidiaries and affiliates to participate in the long-term success of TWMI and Markets.

Equity-settled PRSUs are promises to issue actual shares of common stock at the end of a three-year cliff vesting period. The number of shares a participant will receive upon vesting is determined by a performance modifier, which is adjusted as a result of the financial performance of the TWMI in the grant year. The performance modifier can vary between 0% (minimum) and 200% (maximum) of the target (100%) award amount.

For cash-settled PRSUs, the cost of employee services received in exchange for the award is measured based on the fair value of TWMI and the value of accumulated dividend rights associated with each award. The fair value of that award is remeasured subsequently at each reporting date through to settlement. Changes in the award's fair value during the requisite service period are recognized as compensation cost over that period.

RSUs are promises to issue actual shares of common stock at the end of a vesting period. RSUs vest one-third each year over a three-year period.

Prior to the IPO, Markets made a special award of options to management and other employees. Each option award vests one half based solely on the passage of time and one half only if Markets achieves certain performance targets. The time vesting portion of the options has a four-year graded vesting schedule, with accelerated vesting for time-based options granted prior to the initial public offering.

In accounting for the options issued under the Option Plan, compensation expense is measured and recognized for all awards based on their estimated fair values measured as of the grant date.

The fair value of the options is calculated on the grant date using the Black-Scholes model. The significant assumptions used to estimate the fair value of the options as of grant date did not reflect changes that would have occurred to these assumptions as a result of TWMI's IPO.

11. Net Capital Requirements

The Company is subject to the Uniform Net Capital Rule 15c3-1 under the Securities Exchange Act of 1934. Under the Rule, the Company is required to maintain net capital, as defined, equivalent to the greater of \$250,000 or 6 2/3% of aggregate indebtedness, as defined. At December 31, 2020, the Company had net capital of \$58,415,000 which exceeded its requirement of \$2,121,000 by \$56,294,000. The Company's ratio of aggregate indebtedness to net capital was 0.54 to 1.

Dealerweb Inc.
Notes to Statement of Financial Condition
December 31, 2020

12. Off-Balance-Sheet Risk and Concentration of Credit Risk

In the normal course of business the Company, as agent, executes transactions with, and on behalf of, other brokers and dealers. If the agency transactions do not settle because of failure to perform by either counterparty, the Company may be obligated to discharge the obligation of the non-performing party and, as a result, may incur a loss if the market value of the security is different from the contract amount of the transaction.

A substantial number of the Company's transactions are collateralized and executed with, and on behalf of, a limited number of brokers and dealers. The Company's exposure to credit risk associated with the nonperformance of these clients in fulfilling their contractual obligations pursuant to securities transactions can be directly impacted by volatile trading markets which may impair the clients' ability to satisfy their obligations to the Company.

The Company does not expect nonperformance by counterparties in the above situations. However, the Company's policy is to monitor its market exposure and counterparty risk. In addition, the Company has a policy of reviewing, as considered necessary, the credit standing of each counterparty with which it conducts business.

The Company has cash in banks in excess of FDIC-insured limits and is exposed to the credit risk resulting from this concentration of cash.

13. Related Party Transactions

Under a service agreement between the Company and Tradeweb Markets LLC ("Markets"), Markets provides the Company with certain legal, financial, tax, accounting, human resources, facilities, marketing, technology and administrative services relating to the Company's inter-dealer broker business.

Under a service agreement between the Company and DW SEF LLC, the Company provides DW SEF with certain receipt collection, payroll, benefits and administrative services relating to DW SEF's business. Fees on the agreement are based on actual costs incurred by the Company. On a monthly basis, the Company settles the net receivable or payable with DW SEF LLC via Receivables from and Payable to parent and affiliates. Receivables from and Payable to parent and affiliates balances with other Markets' entities are settled in the same manner.

14. Subsequent Events

There were no subsequent events requiring adjustment to the financial statements or disclosure through March 1, 2021, the date that the Company's financial statements were issued.