

MARKETAXESS HOLDINGS INC

Form 10-Q

October 30, 2009

**Table of Contents**

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q**

**(Mark One)**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended September 30, 2009**

**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.)*

**140 Broadway, 42nd Floor New York, New York**

*(Address of principal executive offices)*

**10005**

*(Zip Code)*

**(212) 813-6000**

**(Registrant's telephone number, including area code)**

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer   
(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 30, 2009, the number of shares of the Registrant's voting common stock outstanding was 31,772,669 and the number of shares of the Registrant's non-voting common stock was 2,585,654.

**MARKETAXESS HOLDINGS INC.**  
**FORM 10-Q FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2009**  
**TABLE OF CONTENTS**

	<b>Page</b>
<u>PART I Financial Information</u>	
<u>Item 1. Financial Statements (Unaudited)</u>	
<u>Consolidated Statements of Financial Condition as of September 30, 2009 and December 31, 2008</u>	3
<u>Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2009 and 2008</u>	4
<u>Consolidated Statement of Changes in Stockholders' Equity and Accumulated Other Comprehensive Loss for the Nine Months Ended September 30, 2009</u>	5
<u>Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2009 and 2008</u>	6
<u>Notes to Consolidated Financial Statements</u>	7
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	23
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	39
<u>Item 4. Controls and Procedures</u>	39
<u>PART II Other Information</u>	
<u>Item 1. Legal Proceedings</u>	41
<u>Item 1A. Risk Factors</u>	41
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	41
<u>Item 3. Defaults Upon Senior Securities</u>	42
<u>Item 4. Submission of Matters to a Vote of Security Holders</u>	42
<u>Item 5. Other Information</u>	42
<u>Item 6. Exhibits</u>	42
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32.1</u>	
<u>EX-32.2</u>	

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

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

	<b>September 30, 2009</b>	<b>As of December 31, 2008</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 106,133	\$ 107,323
Securities available-for-sale	56,194	35,227
Securities and cash provided as collateral	4,556	4,316
Accounts receivable, including receivables from related parties of \$2,549 and \$1,930, respectively, net of allowance of \$1,093 and \$1,012 as of September 30, 2009 and December 31, 2008, respectively	23,653	13,283
Furniture, equipment and leasehold improvements, net of accumulated depreciation and amortization	4,010	3,369
Software development costs, net of accumulated amortization	3,665	4,521
Goodwill and intangible assets, net of accumulated amortization	37,922	39,546
Prepaid expenses and other assets	2,379	3,177
Deferred tax assets, net	28,988	35,666
<b>Total assets</b>	<b>\$ 267,500</b>	<b>\$ 246,428</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>Liabilities</b>		
Accrued employee compensation	\$ 10,214	\$ 10,439
Deferred revenue	4,425	2,303
Accounts payable, accrued expenses and other liabilities, including payables to related parties of \$20 and \$11 as of September 30, 2009 and December 31, 2008, respectively	10,735	8,878
<b>Total liabilities</b>	<b>25,374</b>	<b>21,620</b>
<b>Commitments and Contingencies (Note 14)</b>		
<b>Series B Preferred Stock</b> , \$0.001 par value, 35,000 shares authorized, issued and outstanding as of September 30, 2009 and December 31, 2008, liquidation preference of \$1,000 per share	30,315	30,315
<b>Stockholders equity</b>		
Preferred stock, \$0.001 par value, 4,855,000 shares authorized, no shares issued and outstanding as of September 30, 2009 and December 31, 2008		
Series A Preferred Stock, \$0.001 par value, 110,000 shares authorized, no shares issued and outstanding as of September 30, 2009 and December 31,		

2008		
Common stock voting, \$0.003 par value, 110,000,000 shares authorized, 34,649,233 shares and 33,971,309 shares issued as of September 30, 2009 and December 31, 2008, respectively	104	102
Common stock non-voting, \$0.003 par value, 10,000,000 shares authorized, 2,585,654 shares issued and outstanding as of September 30, 2009 and December 31, 2008	9	9
Additional paid-in capital	311,702	305,508
Receivable for common stock subscribed	(713)	(951)
Treasury stock - Common stock voting, at cost, 2,864,120 shares as of September 30, 2009 and December 31, 2008	(40,000)	(40,000)
Accumulated deficit	(58,189)	(68,855)
Accumulated other comprehensive loss	(1,102)	(1,320)
<b>Total stockholders' equity</b>	211,811	194,493
<b>Total liabilities and stockholders' equity</b>	\$ 267,500	\$ 246,428

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

**Table of Contents**

**MARKETAXESS HOLDINGS INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(Unaudited)**

	<b>Three Months Ended</b>		<b>Nine Months Ended September</b>	
	<b>September 30,</b>		<b>30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>(In thousands, except share and per share amounts)</b>			
<b>Revenues</b>				
Commissions				
U.S. high-grade, including \$2,276, \$1,928, \$6,300 and \$5,985 from related parties for the three and nine months ended September 30, 2009 and 2008, respectively	\$ 16,306	\$ 10,777	\$ 43,629	\$ 35,733
Eurobond, including \$1,049, \$788, \$2,764 and \$2,465 from related parties for the three and nine months ended September 30, 2009 and 2008, respectively	5,497	4,427	14,351	14,136
Other, including \$363, \$378, \$1,043 and \$1,244 from related parties for the three and nine months ended September 30, 2009 and 2008, respectively	3,486	2,015	9,585	6,783
<b>Total commissions</b>	<b>25,289</b>	<b>17,219</b>	<b>67,565</b>	<b>56,652</b>
Technology products and services, including \$9, \$3, \$28 and \$25 from related parties for the three and nine months ended September 30, 2009 and 2008, respectively	2,601	2,646	6,720	6,089
Information and user access fees, including \$60, \$81, \$185 and \$207 from related parties for the three and nine months ended September 30, 2009 and 2008, respectively	1,519	1,562	4,678	4,485
Investment income, including \$36, \$310, \$184 and \$786 from related parties for the three and nine months ended September 30, 2009 and 2008, respectively	314	963	880	2,715
Other, including \$37, \$45, \$117 and \$132 from related parties for the three and nine months ended September 30, 2009 and 2008, respectively	286	291	637	1,316
<b>Total revenues</b>	<b>30,009</b>	<b>22,681</b>	<b>80,480</b>	<b>71,257</b>

**Expenses**

Employee compensation and benefits	13,127	11,173	36,486	33,767
Depreciation and amortization	1,654	2,494	5,124	6,090
Technology and communications	2,029	2,007	6,391	6,160
Professional and consulting fees	1,645	1,822	5,137	6,496
Occupancy	706	660	2,075	2,166
Marketing and advertising	651	708	2,004	2,077
General and administrative, including \$49, \$17, \$98 and \$35 from related parties for the three and nine months ended September 30, 2009 and 2008, respectively	1,654	1,719	4,253	4,679
<b>Total expenses</b>	<b>21,466</b>	<b>20,583</b>	<b>61,470</b>	<b>61,435</b>
<b>Income before income taxes</b>	<b>8,543</b>	<b>2,098</b>	<b>19,010</b>	<b>9,822</b>
<b>Provision for income taxes</b>	<b>3,903</b>	<b>579</b>	<b>8,344</b>	<b>3,859</b>
<b>Net income</b>	<b>\$ 4,640</b>	<b>\$ 1,519</b>	<b>\$ 10,666</b>	<b>\$ 5,963</b>
Net income per common share				
Basic	\$ 0.13	\$ 0.04	\$ 0.29	\$ 0.17
Diluted	\$ 0.12	\$ 0.04	\$ 0.28	\$ 0.17
Weighted average shares used to compute net income per common share				
Basic	33,287,464	32,952,012	33,242,280	32,765,660
Diluted	38,196,823	37,438,054	37,855,864	35,187,653

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

**Table of Contents**

**MARKETAXESS HOLDINGS INC.**  
**CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY**  
**AND ACCUMULATED OTHER COMPREHENSIVE LOSS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2009**  
**(Unaudited)**

	Common		Treasury		Accumu-		Total	
	Common	Additional	Receivable	Stock	lated	Other	Stock-	
	Stock	Paid-In	for	Common	Accumu-	Comprehen-	holders	
	Voting	Capital	Common	Stock	lated	sive	Equity	
	Stock		Stock	Voting	Deficit	Loss		
	Non-		Stock	Stock				
	Voting		Subscribed					
	Stock		Stock					
Balance at December 31, 2008	\$ 102	\$ 9	\$ 305,508	\$ (951)	\$ (40,000)	\$ (68,855)	\$ (1,320)	\$ 194,493
Comprehensive income:								
Net income						10,666		10,666
Cumulative translation adjustment and foreign currency exchange hedge, net of tax							(186)	(186)
Unrealized net gain on securities available-for-sale, net of tax							404	404
Total comprehensive income								10,884
Stock-based compensation			6,304					6,304
Exercise of stock options and grants of restricted stock, net of withholding tax on stock vesting	2		209					211
Repayment of promissory notes				238				238
Decrement in windfall tax benefits from stock-based compensation			(319)					(319)
Balance at September 30, 2009	\$ 104	\$ 9	\$ 311,702	\$ (713)	\$ (40,000)	\$ (58,189)	\$ (1,102)	\$ 211,811

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



Table of Contents

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

	Nine Months Ended September 30,	
	2009	2008
	(In thousands)	
<b>Cash flows from operating activities</b>		
Net income	\$ 10,666	\$ 5,963
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,124	6,090
Stock-based compensation expense	6,304	5,296
Deferred taxes	7,153	3,853
Provision for bad debts	673	928
Changes in operating assets and liabilities, net of business acquired:		
(Increase) decrease in accounts receivable, including an (increase) decrease of (\$619) and \$2,486 from related parties for the nine months ended September 30, 2009 and 2008, respectively	(11,043)	2,646
Decrease in prepaid expenses and other assets	798	814
(Decrease) in accrued employee compensation	(225)	(6,025)
Increase in deferred revenue	2,122	883
Increase (decrease) in accounts payable, accrued expenses and other liabilities, including an increase (decrease) of \$9 and (\$145) to related parties for the nine months ended September 30, 2009 and 2008, respectively	2,441	(2,599)
<b>Net cash provided by operating activities</b>	<b>24,013</b>	<b>17,849</b>
<b>Cash flows from investing activities</b>		
Acquisition of businesses, net of cash acquired (Note 3)	(1,368)	(34,918)
Securities available-for-sale:		
Proceeds from maturities	15,740	37,669
Purchases	(35,985)	(4,832)
Securities and cash provided as collateral	(240)	39
Purchases of furniture, equipment and leasehold improvements	(1,560)	(1,315)
Capitalization of software development costs	(1,421)	(1,882)
<b>Net cash (used in) investing activities</b>	<b>(24,834)</b>	<b>(5,239)</b>
<b>Cash flows from financing activities</b>		
Issuance of Series B Preferred Stock and common stock purchase warrants		33,510
Proceeds from exercise of stock options and grants of restricted stock, net of withholding tax	211	(339)
Decrement in windfall tax benefits from stock-based compensation	(319)	(137)
Purchase of treasury stock common stock voting		(2,773)
Other	90	91
<b>Net cash (used in) provided by financing activities</b>	<b>(18)</b>	<b>30,352</b>

<b>Effect of exchange rate changes on cash</b>	(351)	(711)
<b>Cash and cash equivalents</b>		
Net (decrease) increase for the period	(1,190)	42,251
Beginning of year	107,323	72,711
<b>End of period</b>	\$ 106,133	\$ 114,962
<b>Supplemental cash flow information:</b>		
<b>Cash paid during the year:</b>		
Income taxes paid	\$ 213	\$ 51
<b>Non-cash activity:</b>		
Issuance of common stock in connection with business acquisition	\$	\$ 5,775
Capital lease obligation	\$ 723	\$ 645

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

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

MarketAxess Holdings Inc. (the Company) was incorporated in the State of Delaware on April 11, 2000. Through its subsidiaries, the Company operates an electronic trading platform for corporate bonds and certain other types of fixed-income securities through which the Company's institutional investor clients can access the liquidity provided by its broker-dealer clients. The Company's multi-dealer trading platform allows its institutional investor clients to simultaneously request competitive, executable bids or offers from multiple broker-dealers, and to execute trades with the broker-dealer of their choice. The Company offers its clients the ability to trade U.S. high-grade corporate bonds, European high-grade corporate bonds, credit default swaps, agencies, high yield and emerging markets bonds. The Company's DealerAxe<sup>®</sup> trading service allows dealers to trade fixed-income securities and credit default swaps with each other on its platform. The Company executes certain bond transactions between and among institutional investor and broker-dealer clients on a riskless principal basis by serving as counterparty to both the buyer and the seller in matching back-to-back trades, which then settle through a third-party clearing organization. Through its Corporate BondTicker service, the Company provides fixed-income market data, analytics and compliance tools that help its clients make trading decisions. In addition, the Company provides FIX (Financial Information eXchange) message management tools, connectivity solutions and ancillary technology services that facilitate the electronic communication of order information between trading counterparties.

The Company's stockholder broker-dealer clients as of January 1, 2009 were BNP Paribas, Credit Suisse and JPMorgan. These broker-dealer clients constitute related parties of the Company (together, the Stockholder Broker-Dealer Clients). For 2008, the same three dealers were considered to be Stockholder Broker-Dealer Clients. See Note 10, Related Parties.

**2. Significant Accounting Policies*****Basis of Presentation***

The Consolidated Financial Statements include the accounts of the Company and its subsidiaries. All intercompany transactions and balances have been eliminated. These Consolidated Financial Statements are unaudited and should be read in conjunction with the audited Consolidated Financial Statements included in the Company's Annual Report on Form 10-K, as amended, for the year ended December 31, 2008. The consolidated financial information as of December 31, 2008 has been derived from audited financial statements not included herein.

These unaudited Consolidated Financial Statements are prepared in accordance with accounting principles generally accepted in the United States and the rules and regulations of the U.S. Securities and Exchange Commission (SEC) with respect to Form 10-Q and reflect all adjustments that, in the opinion of management, are normal and recurring, and that are necessary for a fair statement of the results for the interim periods presented. In accordance with such rules and regulations, certain disclosures that are normally included in annual financial statements have been omitted. Interim period operating results may not be indicative of the operating results for a full year.

***Cash and Cash Equivalents***

Cash and cash equivalents include cash maintained at U.S. and U.K. banks and in money market funds. The Company defines cash equivalents as short-term interest-bearing investments with maturities at the time of purchase of three months or less.

***Securities Available-for-Sale***

The Company classifies its marketable securities as available-for-sale securities. Unrealized marketable securities gains and losses, net of taxes, are reflected as a net amount under the caption of accumulated other comprehensive loss in the Consolidated Statements of Financial Condition. Realized gains and losses are recorded in the Consolidated Statements of Operations in other revenues. For the purpose of computing realized gains and losses, cost is determined on a specific identification basis.

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. Declines in fair values that are considered other-than-temporary are recorded as charges in the Consolidated Statements of Operations. No charges for other-than-temporary declines were recorded during 2009 and 2008.



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

Pursuant to a new accounting standard adopted in 2008, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The standard also establishes a three-tiered fair value hierarchy that prioritizes inputs to valuation techniques used in fair value calculations. The three levels of inputs are defined as Level 1 (unadjusted quoted prices for identical assets or liabilities in active markets), Level 2 (inputs that are observable in the marketplace other than those inputs classified in Level 1) and Level 3 (inputs that are unobservable in the marketplace). The Company's financial assets and liabilities measured at fair value on a recurring basis consist of its securities available-for-sale portfolio and one foreign currency forward contract.

***Securities and Cash Provided as Collateral***

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

***Allowance for Doubtful Accounts***

The Company continually monitors collections and payments from its clients and maintains an allowance for doubtful accounts. The allowance for doubtful accounts is based upon the historical collection experience and specific collection issues that have been identified. Additions to the allowance for doubtful accounts are charged to bad debt expense, which is included in general and administrative expense in the Company's Consolidated Statements of Operations.

***Depreciation and Amortization***

Fixed assets are carried at cost less accumulated depreciation. The Company uses the straight-line method of depreciation over three to seven years. Leasehold improvements are stated at cost and are amortized using the straight-line method over the lesser of the life of the improvement or the remaining term of the lease.

***Software Development Costs***

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

***Foreign Currency Translation and Forward Contracts***

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

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

***Revenue Recognition***

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

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

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

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

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

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

Revenues from contracts for technology integration consulting services are recognized on the percentage-of-completion method. Percentage-of-completion accounting involves calculating the percentage of services provided during the reporting period compared to the total estimated services to be provided over the duration of the contract. If estimates indicate that a contract loss will occur, a loss provision is recorded in the period in which the loss first becomes probable and reasonably estimable. Contract losses are determined to be the amount by which the estimated direct and indirect costs of the contract exceed the estimated total revenues that will be generated by the contract. There were no contract loss provisions recorded as of September 30, 2009 and December 31, 2008. Revenues recognized in excess of billings are recorded as unbilled services. Billings in excess of revenues recognized are recorded as deferred revenues until revenue recognition criteria are met.

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

***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

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

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

***Business Combinations, Goodwill and Intangible Assets***

Business acquisitions were completed prior to December 31, 2008 and were accounted for under the purchase method of accounting. The total cost of an acquisition is allocated to the underlying net assets based on their respective estimated fair values. The excess of the purchase price over the estimated fair values of the net assets acquired is recorded as goodwill. Determining the fair value of certain assets acquired and liabilities assumed is judgmental in nature and often involves the use of significant estimates and assumptions, including assumptions with respect to future cash flows, discount rates, growth rates and asset lives.

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

***Earnings Per Share***

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

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

***Use of Estimates***

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

***Recent Accounting Pronouncements***

In June 2009, the Financial Accounting Standards Board ( FASB ) issued The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162 (the Codification ), which establishes the Codification as the source of authoritative accounting principles to be applied in the preparation of financial statements in conformity with generally accepted accounting principles ( GAAP ). The Codification explicitly recognizes rules and interpretive releases of the SEC under federal securities laws as authoritative GAAP for SEC registrants. The Codification does not change GAAP and is effective for interim and annual reporting periods ending after September 15, 2009. The adoption of this standard had no material effect on the Company's Consolidated Financial Statements.



In May 2009, the FASB issued a standard regarding the accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. The standard requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date and is effective for interim and annual reporting periods ending after June 15, 2009. The adoption of this standard had no material effect on the Company's Consolidated Financial Statements.

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

In April 2009, the FASB issued a standard that requires disclosures about fair value of financial instruments in interim financial statements as well as in annual financial statements. The standard is effective for interim and annual periods ending after June 15, 2009. The adoption of this standard had no material effect on the Company's Consolidated Statements of Financial Condition and Consolidated Statements of Operations.

In March 2008, the FASB issued a standard that expands the disclosure requirements for derivative instruments and hedging activities. The standard is effective for fiscal years beginning after November 15, 2008. The adoption of this standard had no material effect on the Company's Consolidated Statements of Financial Condition and Consolidated Statements of Operations.

**Reclassifications**

Certain reclassifications have been made to the prior periods' financial statements in order to conform to the current periods' presentation. Such reclassifications had no effect on previously reported net income.

**3. Acquisition**

On March 5, 2008, the Company acquired all of the outstanding capital stock of Greenline Financial Technologies, Inc. (Greenline), an Illinois-based provider of integration, testing and management solutions for FIX-related products and services designed to optimize electronic trading of fixed-income, equity and other exchange-based products, and approximately ten percent of the outstanding capital stock of TradeHelm, Inc., a Delaware corporation that was spun-out from Greenline immediately prior to the acquisition. The acquisition of Greenline broadens the range of technology services that the Company offers to institutional financial markets, provides an expansion of the Company's client base, including global exchanges and hedge funds, and further diversifies the Company's revenues beyond the core electronic credit trading products. The results of operations of Greenline are included in the Consolidated Financial Statements from the date of the acquisition.

The aggregate consideration for the Greenline acquisition was \$41.1 million, comprised of \$34.7 million in cash, 725,923 shares of common stock valued at \$5.8 million and \$0.6 million of acquisition-related costs. In addition, the sellers were eligible to receive up to an aggregate of \$3.0 million in cash, subject to Greenline attaining certain earn-out targets in 2008 and 2009. A total of \$1.4 million was paid to the sellers in March 2009 based on the 2008 earn-out target, bringing the aggregate consideration to \$42.4 million. A total of \$2.0 million of the purchase price, which had been deposited into escrow to satisfy potential indemnity claims, was distributed to the sellers in March 2009. The shares of common stock to be issued to each selling shareholder of Greenline are held by the Company and were or will be released in two equal installments on December 20, 2008 and December 20, 2009, respectively. The value ascribed to the shares was discounted from the market value to reflect the non-marketability of such shares during the restriction period. The purchase price allocation is as follows (in thousands):

Cash	\$ 6,406
Accounts receivable	2,139
Amortizable intangibles	8,330
Goodwill	29,405
Deferred tax assets, net	3,410
Other assets, including investment in TradeHelm	1,429
Accounts payable, accrued expenses and deferred revenue	(8,701)
 Total purchase price	 \$ 42,418

The amortizable intangibles include \$3.2 million of acquired technology, \$3.3 million of customer relationships, \$1.3 million of non-competition agreements and \$0.5 million of tradenames. Useful lives of ten years and five years have been assigned to the customer relationships intangible and all other amortizable intangibles, respectively. The identifiable intangible assets and goodwill are not deductible for tax purposes.

The following unaudited pro forma consolidated financial information reflects the results of operations of the Company for the nine months ended September 30, 2008, as if the acquisition of Greenline had occurred as of the beginning of the period presented, after giving effect to certain purchase accounting adjustments. These pro forma results are not necessarily indicative of what the Company's operating results would have been had the acquisition actually taken place as of the beginning of the period presented.

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

The pro forma financial information includes the amortization charges from acquired intangible assets, adjustments to interest income and related tax effects (in thousands, except per share amounts).

	<b>Pro forma Nine Months Ended Sept. 30, 2008</b>
Revenues	\$ 72,848
Income before income taxes	\$ 10,147
Net income	\$ 6,169
Basic net income per common share	\$ 0.18
Diluted net income per common share	\$ 0.17

**4. Net Capital Requirements and Customer Protection Requirements**

MarketAxess Corporation, a U.S. subsidiary, is a registered broker-dealer with the SEC and is a member of the Financial Industry Regulatory Authority ( FINRA ). MarketAxess Corporation claims exemption from SEC Rule 15c3-3, as it does not hold customer securities or funds on account, as defined. Pursuant to the Uniform Net Capital Rule under the Securities Exchange Act of 1934, MarketAxess Corporation is required to maintain minimum net capital, as defined, equal to the greater of \$5,000 or 6 2/3% of aggregate indebtedness. MarketAxess Europe Limited, a U.K. subsidiary, is registered as a Multilateral Trading Facility with the Financial Services Authority ( FSA ) in the U.K. MarketAxess Canada Limited, a Canadian subsidiary, is registered as an Alternative Trading System dealer under the Securities Act of Ontario and is a member of the Investment Industry Regulatory Organization of Canada. MarketAxess Europe Limited and MarketAxess Canada Limited are subject to certain financial resource requirements of the FSA and the Ontario Securities Commission, respectively. The following table sets forth the capital requirements, as defined, that the Company's subsidiaries were required to maintain as of September 30, 2009:

	<b>MarketAxess Corporation</b>	<b>MarketAxess Europe Limited (In thousands)</b>	<b>MarketAxess Canada Limited</b>
Net capital	\$ 38,187	\$ 21,599	\$ 388
Minimum net capital required	1,217	2,753	257
Excess net capital	\$ 36,970	\$ 18,846	\$ 131

The Company's regulated subsidiaries are subject to U.S., U.K. and Canadian regulations which 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, respectively, without prior notification to or approval from such regulated entity's principal regulator.

**Table of Contents****MARKETAXESS HOLDINGS INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Unaudited (Continued)****5. Fair Value Measurements**

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

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
		<b>(In thousands)</b>		
<b>As of September 30, 2009</b>				
Securities available-for-sale				
U.S. government obligations	\$	\$ 30,476	\$	\$ 30,476
Municipal securities		23,651		23,651
Corporate bonds		2,067		2,067
Foreign currency forward position		609		609
	\$	\$ 56,803	\$	\$ 56,803
<b>As of December 31, 2008</b>				
Securities available-for-sale				
Municipal securities	\$	\$ 33,177	\$	\$ 33,177
Corporate bonds		2,050		2,050
Foreign currency forward position		264		264
	\$	\$ 35,491	\$	\$ 35,491

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 contract is classified within Level 2 as the valuation inputs are based on quoted market prices.

The Company enters into foreign currency forward contracts with a noncontrolling stockholder broker-dealer client to hedge the exposure to variability in foreign currency cash flows resulting from the net investment in the Company's U.K. subsidiary. The Company assesses each foreign currency forward contract to ensure that it is highly effective at reducing the exposure being hedged. The Company designates each foreign currency forward contract as a hedge, 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 gross and net fair value asset of \$0.6 million and \$0.3 million as of September 30, 2009 and December 31, 2008, respectively, is included in accounts receivable, 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 foreign currency forward contract is as follows:

	<b>As of</b>	
	<b>September 30, 2009</b>	<b>December 31, 2008</b>
	<b>(In thousands)</b>	
Notional value	\$ 26,375	\$ 20,041
Fair value of notional	25,766	19,777

Gross and net fair value asset	\$	609	\$	264
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**Table of Contents****MARKETAXESS HOLDINGS INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Unaudited (Continued)**

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)			
<b>As of September 30, 2009</b>				
U.S. government obligations	\$ 29,766	\$ 710	\$	\$ 30,476
Municipal securities	23,621	36	(6)	23,651
Corporate bonds	2,050	17		2,067
Total securities available-for-sale	\$ 55,437	\$ 763	\$ (6)	\$ 56,194
<b>As of December 31, 2008</b>				
Municipal securities	\$ 33,138	\$ 55	\$ (16)	\$ 33,177
Corporate bonds	2,054		(4)	2,050
Total securities available-for-sale	\$ 35,192	\$ 55	\$ (20)	\$ 35,227

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

	September 30, 2009	As of December 31, 2008
	(In thousands)	
Less than one year	\$ 15,151	\$ 18,702
Due in 1 - 5 years	41,043	16,525
Total securities available-for-sale	\$ 56,194	\$ 35,227

Proceeds from the maturities and sales of securities available-for-sale during the nine months ended September 30, 2009 and 2008 were \$15.7 million and \$37.7 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:

	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)					
<b>As of September 30, 2009</b>						
U.S. government obligations	\$	\$	\$	\$	\$	\$
Municipal securities	5,624	(6)			5,624	(6)
Corporate bonds						

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Total securities available-for-sale	\$ 5,624	\$ (6)	\$	\$	\$ 5,624	\$ (6)
<b>As of December 31, 2008</b>						
Municipal securities	\$ 7,222	\$ (16)	\$	\$	\$ 7,222	\$ (16)
Corporate bonds	2,050	(4)			2,050	(4)
Total securities available-for-sale	\$ 9,272	\$ (20)	\$	\$	\$ 9,272	\$ (20)



**Table of Contents****MARKETAXESS HOLDINGS INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Unaudited (Continued)****6. Furniture, Equipment and Leasehold Improvements**

Furniture, equipment and leasehold improvements, net, are comprised of the following:

	<b>September 30, 2009</b>	<b>As of December 31, 2008</b>
	<b>(In thousands)</b>	
Computer hardware and related software	\$ 13,838	\$ 18,015
Office hardware	1,217	3,574
Furniture and fixtures	1,975	1,791
Leasehold improvements	2,217	2,074
Computer hardware under capital lease	1,419	696
Accumulated depreciation and amortization	(16,656)	(22,781)
<b>Total furniture, equipment and leasehold improvements, net</b>	<b>\$ 4,010</b>	<b>\$ 3,369</b>

**7. Software Development Costs**

During the nine months ended September 30, 2009 and 2008, software development costs totaling \$1.4 million and \$1.9 million, respectively, were capitalized. Non-capitalized software costs and routine maintenance costs are expensed as incurred and are included in employee compensation and benefits and professional and consulting fees in the Consolidated Statements of Operations. Software development costs, net, are comprised of the following:

	<b>September 30, 2009</b>	<b>As of December 31, 2008</b>
	<b>(In thousands)</b>	
Software development costs	\$ 18,830	\$ 19,607
Accumulated amortization	(15,165)	(15,086)
<b>Total software development costs, net</b>	<b>\$ 3,665</b>	<b>\$ 4,521</b>

**8. Goodwill and Intangible Assets**

Goodwill and intangible assets principally relate to the acquisitions of Trade West Systems, LLC ( TWS ), which was completed in November 2007, and Greenline. The following is a summary of goodwill:

	<b>September 30, 2009</b>	<b>As of December 31, 2008</b>
	<b>(In thousands)</b>	
Goodwill from Greenline acquisition	\$ 29,405	\$ 29,853
Goodwill from TWS acquisition	2,177	2,177
Other goodwill	202	202
<b>Total</b>	<b>\$ 31,784</b>	<b>\$ 32,232</b>

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

Intangible assets that are subject to amortization, including the related accumulated amortization, are comprised of the following:

	September 30, 2009			December 31, 2008		
	Cost	Accumulated Amortization	Net Carrying Amount	Cost	Accumulated Amortization	Net Carrying Amount
	(In thousands)					
Technology	\$ 4,010	\$ (1,633)	\$ 2,377	\$ 4,010	\$ (1,110)	\$ 2,900
Customer relationships	3,530	(990)	2,540	3,530	(604)	2,926
Non-competition agreements	1,260	(396)	864	1,260	(207)	1,053
Tradenames	590	(233)	357	590	(155)	435
Total	\$ 9,390	\$ (3,252)	\$ 6,138	\$ 9,390	\$ (2,076)	\$ 7,314

Amortization expense associated with identifiable intangible assets was \$1.2 million and \$1.0 million for the nine months ended September 30, 2009 and 2008, respectively. Estimated total amortization expense is \$1.6 million for 2009, \$1.5 million for 2010 and 2011, \$1.4 million for 2012 and \$0.5 million for 2013.

During the third quarter of 2008, the Company determined that the technology, customer relationships and tradename intangible assets recognized in connection with the TWS acquisition were impaired. A charge of \$0.7 million was recorded to reflect negative current period operating results and reduced revenue expectations for connectivity solutions principally delivered to broker-dealers.

**9. Income Taxes**

The provision for income taxes consists of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	(In thousands)			
Current:				
Federal	\$ 25	\$	\$ 25	\$
State and local	8		(4)	
Foreign	739	78	1,391	193
Total current provision	772	78	1,412	193
Deferred:				
Federal	1,641	9	3,907	1,717
State and local	1,498	(38)	2,605	685
Foreign	(8)	530	420	1,264
Total deferred provision	3,131	501	6,932	3,666
Provision for income taxes	\$ 3,903	\$ 579	\$ 8,344	\$ 3,859

The following is a summary of the Company's net deferred tax assets:

	<b>September 30, 2009</b>	<b>As of December 31, 2008</b>
	<b>(In thousands)</b>	
Deferred tax assets and liabilities	\$ 29,583	\$ 36,233
Valuation allowance	(595)	(567)
Deferred tax assets, net	\$ 28,988	\$ 35,666

As of September 30, 2009, the Company had deferred tax assets associated with stock-based compensation of approximately \$5.8 million. There is a risk that the ultimate tax benefit realized upon the exercise of stock options or vesting of restricted stock could be less than the tax benefit previously recognized and in a manner sufficient to exhaust the additional paid-in capital pool. If this should occur, any excess tax benefit previously recognized would be reversed, resulting in an increase in tax expense. Since the tax benefit to

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

be realized in the future is unknown, it is not currently possible to estimate the impact on the deferred tax balance. As of September 30, 2009, the additional paid-in-capital pool was approximately \$2.7 million.

The Company or one of its subsidiaries files U.S. federal, state and foreign income tax returns. No U.S. federal, state or U.K. income tax returns have been subject to audit, with the exception of New York city and state (through 2003) and Connecticut state (through 2003) tax returns. The Company's New York state franchise tax returns for 2004 through 2006 are currently under examination. The Company cannot estimate when the examination will conclude.

As a result of the implementation of a new accounting standard effective January 1, 2008, the Company recognized an increase in deferred tax assets of \$3.0 million related to previously unrecognized tax benefits, which was accounted for as an increase to additional paid-in capital of \$0.3 million and an increase in accrued expenses of \$2.7 million. Unrecognized tax benefits as of September 30, 2009 and December 31, 2008 were \$2.8 million and \$2.7 million, respectively. If recognized, this entire amount would impact the effective tax rate.

**10. Related Parties**

The Company generates commissions, technology products and services revenues, information and user access fees, investment income and other income and related accounts receivable balances from Stockholder Broker-Dealer Clients or their affiliates. In addition, a Stockholder Broker-Dealer Client acts in an investment advisory, custodial and cash management capacity for the Company. The Company incurs investment advisory and bank fees in connection with this arrangement. As of the dates and for the periods indicated below, the Company had the following balances and transactions with the Stockholder Broker-Dealer Clients or their affiliates:

	As of			
	September 30, 2009	December 31, 2008		
	(In thousands)			
Cash and cash equivalents	\$ 105,522	\$ 106,649		
Securities and cash provided as collateral	4,056	3,816		
Accounts receivable	2,549	1,930		
Accounts payable	20	11		
	(In thousands)			
	Three Months Ended September 30, 2009	2008	Nine Months Ended September 30, 2009	2008
Commissions	\$3,688	\$3,094	\$ 10,107	\$ 9,695
Technology products and services	9	3	28	25
Information and user access fees	60	81	185	207
Investment income	36	310	184	786
Other income	37	45	117	132
General and administrative	49	17	98	35

**11. Stockholders Equity and Preferred Stock****Common Stock**

As of September 30, 2009 and December 31, 2008, the Company had 110,000,000 authorized shares of common stock and 10,000,000 authorized shares of non-voting common stock. Common stock entitles the holder to one vote per share of common stock held. Non-voting common stock is convertible on a one-for-one basis into shares of voting common stock at any time subject to a limitation on conversion to the extent such conversion would result in a stockholder, together with its affiliates, owning more than 9.99% of the outstanding shares of common stock.

**Table of Contents****MARKETAXESS HOLDINGS INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Unaudited (Continued)*****Series B Preferred Stock and Warrants***

On June 2, 2008, the Company entered into a Securities Purchase Agreement (the *Purchase Agreement*) with two funds managed by Technology Crossover Ventures (the *Purchasers*), pursuant to which the Company agreed to issue and sell to the Purchasers (i) 35,000 shares of the Company's Series B Preferred Stock, which shares are convertible into an aggregate of 3,500,000 shares of common stock and (ii) warrants (the *Warrants*) and, together with the Series B Preferred Stock, the *Securities*) to purchase an aggregate of 700,000 shares of common stock at an exercise price of \$10.00 per share, for an aggregate purchase price of \$35.0 million. The Securities were purchased in two tranches on June 3, 2008 and July 14, 2008, with the first tranche representing 28,000 shares of Series B Preferred Stock and Warrants to purchase 560,000 shares of common stock for an aggregate purchase price of \$28.0 million, and the second tranche representing the remainder of the Securities for an aggregate purchase price of \$7.0 million. The net proceeds, after the placement agent fee and legal fees, were \$26.8 million for the first tranche and \$6.8 million for the second tranche.

The Purchasers have the right to nominate one director to the Board of Directors of the Company if they beneficially own at least 1,750,000 shares of common stock. The Purchasers also have registration rights that required the Company, within six months after the closing date, to file a registration statement with the SEC to register the resale of the shares of common stock issuable upon conversion of the Series B Preferred Stock and upon exercise of the Warrants (collectively, the *Registrable Shares*), and to cause such registration statement to become effective under the Securities Act of 1933, as amended, no later than 12 months after the closing. On January 22, 2009, a registration statement on Form S-3 registering the Registrable Shares was declared effective by the SEC. The Company has also agreed to provide the Purchasers with piggyback registration rights on certain public offerings of securities by the Company.

The purchase price of the Series B Preferred Stock was \$1,000.00 per share (the *Original Series B Issue Price*). In the event of a Liquidation Event (as such term is defined in the Series B Certificate of Designation), each holder of the Series B Preferred Stock is entitled to receive, prior to any distribution to the holders of the common stock, the greater of (i) an amount per share of Series B Preferred Stock equal to the Original Series B Issue Price, plus any declared but unpaid dividends thereon, and (ii) the amount such holder would have received in connection with the Liquidation Event if the holder held the number of shares of common stock issuable upon conversion of the Series B Preferred Stock then held by such holder.

The shares of Series B Preferred Stock are convertible at any time by the holders thereof at a conversion price of \$10.00 per share, subject to anti-dilution adjustments in the event of a stock split, stock dividend, reverse stock split or similar transaction. The Series B Preferred Stock will be automatically converted into shares of common stock at the then-applicable conversion price if the closing price of the common stock is at least \$17.50 on each trading day for a period of 65 consecutive trading days.

The Series B Preferred Stock includes a dividend right whereby, upon the declaration or payment of a dividend or distribution on the common stock, a dividend or distribution must also be declared or paid on the Series B Preferred Stock based on the number of shares of common stock into which such shares of Series B Preferred Stock would be convertible at the time. The holders of the Series B Preferred Stock also have voting rights equal to the aggregate number of shares of common stock issuable upon conversion of such holders' shares of Series B Preferred Stock.

As discussed above, the Warrants entitle the Purchasers to purchase an aggregate of 700,000 shares of common stock at an exercise price of \$10.00 per share. The Warrants may be exercised for cash or on a net exercise basis. The Warrants expire on the tenth anniversary of the date they were first issued and are subject to customary anti-dilution adjustments in the event of stock splits, reverse stock splits, stock dividends and similar transactions. The net proceeds from the issuance have been allocated to the Series B Preferred Stock and Warrants based on their relative fair value on the respective closing dates and resulted in \$3.2 million being allocated to the Warrants. The fair value of the Warrants was computed using the Black-Scholes option pricing model.

The Series B Preferred Stock does not contain an unconditional obligation requiring the Company to redeem the shares at a specified date or upon the occurrence of an event certain. While liability classification does not apply, there

are certain liquidation scenarios not solely within the Company's control. Therefore, the portion of the net proceeds attributable to the Series B Preferred Stock is not classified as permanent equity. The Series B Preferred Stock is not being accreted to its redemption value since the occurrence of a redemption event is not considered probable.

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

On June 2, 2008, the Board of Directors implemented and on June 4, 2009, the Company's stockholders ratified, a stockholders rights agreement and declared a distribution of one right (a Right) for each outstanding share of common stock and non-voting common stock, to stockholders of record at the close of business on June 20, 2008 and for each share of common stock and non-voting common stock issued by the Company thereafter and prior to the Distribution Date (as defined in the stockholders rights agreement). Each Right entitles the registered holder, subject to the terms of the stockholders rights agreement, to purchase from the Company one one-thousandth of a share of Series A Preferred Stock, par value \$0.001 per share (a Unit), at a price of \$40.00 per Unit, subject to adjustment.

**12. Stock-Based Compensation Plans**

Stock-based compensation expense for the three and nine months ended September 30, 2009 and 2008 was as follows:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>(In thousands)</b>			
Employee:				
Stock options	\$ 708	\$ 964	\$ 2,228	\$ 2,872
Restricted stock	1,299	707	3,740	2,107
	2,007	1,671	5,968	4,979
Non-employee directors:				
Stock options	42	32	97	94
Restricted stock	103	82	239	223
	145	114	336	317
Total stock-based compensation	\$ 2,152	\$ 1,785	\$ 6,304	\$ 5,296

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, 2009, the Company granted to employees and non-employee directors a total of 140,239 options to purchase shares of common stock, 659,520 shares of restricted stock and performance-based shares with an expected pay-out of 206,664 shares of common stock. Based on the Black-Scholes option pricing model, the weighted-average fair value for each option granted was \$4.60 per share. The fair value of the restricted stock and performance-based share awards was based on a weighted-average grant date fair value per share of \$8.22 and \$7.94, respectively. As of September 30, 2009, there was \$11.7 million of total unrecognized compensation costs related to non-vested awards. That cost is expected to be recognized over a weighted-average period of 1.3 years.

**Table of Contents****MARKETAXESS HOLDINGS INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Unaudited (Continued)****13. Earnings Per Share**

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

	<b>Three Months Ended</b>		<b>Nine Months Ended September</b>	
	<b>September 30,</b>		<b>30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>(In thousands, except share and per share amounts)</b>			
<b>Basic EPS</b>				
Net income	\$ 4,640	\$ 1,519	\$ 10,666	\$ 5,963
Amount allocable to common shareholders	90.5%	90.4%	90.5%	95.7%
Net income applicable to common stock	\$ 4,199	\$ 1,373	\$ 9,650	\$ 5,706
Common stock voting	30,701,810	30,366,358	30,656,626	30,180,006
Common stock non-voting	2,585,654	2,585,654	2,585,654	2,585,654
Basic weighted average shares outstanding	33,287,464	32,952,012	33,242,280	32,765,660
Basic earnings per share	\$ 0.13	\$ 0.04	\$ 0.29	\$ 0.17
<b>Diluted EPS</b>				
Net income	\$ 4,640	\$ 1,519	\$ 10,666	\$ 5,963
Basic weighted average shares outstanding	33,287,464	32,952,012	33,242,280	32,765,660
Effect of dilutive shares:				
Series B Preferred Stock	3,500,000	3,500,000	3,500,000	1,477,778
Stock options, restricted stock and warrants	1,409,359	986,042	1,113,584	944,215
Diluted weighted average shares outstanding	38,196,823	37,438,054	37,855,864	35,187,653
Diluted earnings per share	\$ 0.12	\$ 0.04	\$ 0.28	\$ 0.17

Stock options, restricted stock and warrants totaling 3.1 million shares and 5.1 million shares for the three months ended September 30, 2009 and 2008, respectively, and 4.2 million shares and 4.6 million shares for the nine months ended September 30, 2009 and 2008, 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.



**Table of Contents****MARKETAXESS HOLDINGS INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Unaudited (Continued)****14. Commitments and Contingencies**

The Company leases office space and equipment under non-cancelable lease agreements expiring at various dates through 2022. Office space leases are subject to escalation based on certain costs incurred by the landlord. Minimum rental commitments under such operating and capital leases, net of sublease income, as of September 30, 2009 were as follows:

	<b>Operating Leases</b>	<b>Capital Leases</b>
	<b>(In thousands)</b>	
Remainder of 2009	\$ 584	\$ 84
2010	1,784	336
2011	2,002	336
2012	1,946	336
2013	1,987	322
2014	2,099	42
Thereafter	12,768	
Minimum lease payments	23,170	1,456
Less amount representing interest		210
	\$ 23,170	\$ 1,246

Rental expense of \$0.6 million for both the three months ended September 30, 2009 and 2008, and \$1.8 million for both the nine months ended September 30, 2009 and 2008, is included in occupancy expenses 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, and sublease income.

The Company has entered into a sublease agreement on one of its leased properties through the April 2011 lease termination date. In May 2008, the Company assigned the lease agreement on another leased property to a third party. The Company is contingently liable should the assignee default on future lease obligations through the November 2015 lease termination date. The aggregate amount of future lease obligations under these two arrangements was \$4.1 million as of September 30, 2009.

The Company is contingently obligated for standby letters of credit that were issued to landlords for office space. The Company uses a U.S. government obligation as collateral for these standby letters of credit. This collateral is included with securities and cash provided as collateral in the Consolidated Statements of Financial Condition and had a fair market value of \$3.5 million and \$3.3 million as of September 30, 2009 and December 31, 2008, respectively.

MarketAxess Corporation operates an anonymous matching service for its broker-dealer clients and during 2008 extended its trading counterparty role to include the execution of certain bond transactions between and among institutional investor and broker-dealer clients. MarketAxess Corporation executes all such trades on a riskless principal basis, which are cleared and settled by an independent clearing broker. Under a securities clearing agreement with the independent third party, MarketAxess Corporation maintains a collateral deposit with the clearing broker in the form of cash. As of September 30, 2009 and December 31, 2008, the collateral deposit included in securities and cash provided as collateral in the Consolidated Statements of Financial Condition was \$0.5 million. MarketAxess Corporation is exposed to credit risk in the event a counterparty does not fulfill its obligation to complete a transaction. Pursuant to the terms of the securities clearing agreement between MarketAxess Corporation and the independent clearing broker, the clearing broker has the right to charge MarketAxess Corporation 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 September 30, 2009, MarketAxess Corporation 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.

In January 2007, a former employee of MarketAxess Corporation commenced an arbitration proceeding before FINRA arising out of the May 2006 termination of such individual's employment with MarketAxess Corporation. This individual subsequently amended

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

his statement of claim to add the Company as a party to the arbitration proceeding. FINRA consolidated all of the former employee's claims into a single proceeding.

The former employee alleges that the Company acted wrongfully as a result of, and in connection with, the decision by the Compensation Committee of the Company's Board of Directors not to accede to the employee's demand for alteration of the terms of certain stock option and restricted stock agreements in order to award the employee additional rights and benefits upon the termination of his employment, *i.e.*, accelerated vesting of all of his then unvested options and restricted shares and waiver of the 90-day time period within which he was contractually required to exercise his vested options. This former employee further alleges that he is entitled to a bonus for the approximately five months that he worked for MarketAxess Corporation during 2006. The alleged damages sought by the claimant total approximately \$0.9 million, plus statutory interest, and an unstated amount of punitive damages, costs and expenses.

The FINRA hearing, originally scheduled for February 2009, was further postponed in September 2009 and has been rescheduled for March 2-5, 2010. The Company believes that the former employee's claims are wholly without merit and has vigorously defended against them. Based on currently available information, the Company believes that the likelihood of a material loss is not probable. Accordingly, no amount has been provided in the accompanying financial statements. However, arbitration is subject to inherent uncertainties and unfavorable rulings could occur.

**15. Comprehensive Income**

Comprehensive income was as follows:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>(In thousands)</b>			
Net income	\$ 4,640	\$ 1,519	\$ 10,666	\$ 5,963
Cumulative translation adjustment and foreign currency exchange hedge, net of taxes	(54)	(123)	(186)	(420)
Unrealized net gain (loss) on securities available- for-sale, net of taxes	171	(178)	404	(417)
Total comprehensive income	\$ 4,757	\$ 1,218	\$ 10,884	\$ 5,126

**Table of Contents****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 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 one of the leading platforms for the electronic trading of corporate bonds and certain other types of fixed-income securities. Through our platform, institutional investor client firms can access the aggregate liquidity provided by the collective interest of our 67 broker-dealer clients in buying or selling bonds through our platform. Our 704 active institutional investor clients (firms that executed at least one trade in U.S. or European fixed-income securities through our electronic trading platform between October 2008 and September 2009) include investment advisers, mutual funds, insurance companies, public and private pension funds, bank portfolios and hedge funds. Our DealerAxess® trading service allows dealers to trade fixed-income securities and credit default swaps with each other on our platform. We execute certain bond transactions between and among institutional investor and broker-dealer clients on a riskless principal basis by serving as counterparty to both the buyer and the seller in matching back-to-back trades, which then settle through a third-party clearing organization. Through our Corporate BondTicker service, we provide fixed-income market data, analytics and compliance tools that help our clients make trading decisions. In addition, we provide FIX (Financial Information eXchange) message management tools, connectivity solutions and ancillary technology services that facilitate the electronic communication of order information between trading counterparties. Our revenues are primarily generated from the trading of U.S. and European high-grade corporate bonds.

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. In addition to U.S. high-grade corporate bonds, European high-grade corporate bonds and emerging markets bonds, including both investment-grade and non-investment grade debt, we also offer our clients the ability to trade crossover and high-yield bonds, agency bonds and credit default swap indices.

The majority of our revenues are derived from monthly distribution fees and commissions for trades executed on our platform that are billed to our broker-dealer clients on a monthly basis. We also derive revenues from technology products and services, information and user access fees, 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.

We seek to grow and diversify our revenues by capitalizing on our status as the operator of a leading platform for the electronic trading of corporate bonds and certain other types of fixed-income securities. 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 expand our client base; to leverage our technology, as well as our strong broker-dealer and institutional investor relationships, to deploy our electronic trading platform into additional product segments within the fixed-income securities markets, deliver fixed-income securities-related technical services and products and deploy our electronic trading platform into new client segments;

## **Table of Contents**

to continue building our existing service offerings so that our electronic trading platform is 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 in order to improve the value of the information we provide to our clients; and

to continue to 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.

### **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 consolidation or contraction of broker-dealers.

#### ***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 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 we compete favorably with respect to these factors. We continue to proactively build technology solutions that serve the needs of the credit markets.

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.

Our U.S. subsidiary, MarketAxess Corporation, is a registered broker-dealer with the SEC and is a member of FINRA. Our U.K. subsidiary, MarketAxess Europe Limited, is registered as a multilateral trading facility dealer with the FSA in the U.K. MarketAxess Canada Limited, a Canadian subsidiary, is registered as an Alternative Trading System dealer under the Securities Act of Ontario and is a member of the Investment Industry Regulatory Organization of Canada. Relevant regulations prohibit repayment of borrowings from these subsidiaries or their affiliates, paying cash dividends, making loans to us or 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 a public company listed on the NASDAQ Global Select Market, we are subject to the reporting requirements of the Securities Exchange Act of 1934, the Sarbanes-Oxley Act of 2002 and the NASDAQ Marketplace rules. The

requirements of these rules and regulations impose legal and financial compliance costs, make some activities more difficult, time-consuming or costly and may also

**Table of Contents**

place a strain on our systems and resources. In order to maintain and improve the effectiveness of our disclosure controls and procedures and internal control over financial reporting, significant resources and management oversight are required.

***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 broker-dealer and institutional investor clients and prospective clients and respond to technological advances and emerging industry standards and practices on a cost-effective and timely basis. We received two patents in 2009 covering our most significant trading protocols and other aspects of our trading system technology, and other patents are pending.

**Trends in Our Business**

The majority of our revenues are derived from monthly distribution fees and commissions for transactions executed on our platform between our institutional investor and broker-dealer clients. 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 institutional investor clients that participate on the 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 to the institutional investor clients;

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.

The U.S. and European credit markets have been through a period of significant turmoil since the third quarter of 2007, especially in short-term funding and floating rate note instruments. A widespread retrenchment in the credit markets resulted in increased credit spreads and significantly higher credit spread volatility across a wide range of asset classes. Credit yield spreads in U.S. corporate bonds, as measured by the Credit Suisse Liquid U.S. Corporate Index, increased from 1.0% over U.S. Treasuries in June 2007 to a peak of 5.4% in December 2008. The credit markets demonstrated significant improvement through the first nine months of 2009, with net inflows to taxable bond funds and corporate and international bond exchange-traded funds, and an increase in the volume of new issues of high-grade corporate bonds compared to the second half of 2008. Credit yield spreads in U.S. corporate bonds declined to 1.7% over U.S. Treasuries as of September 30, 2009. The average daily trading volume of U.S. high-grade corporate bonds for the quarter ended September 30, 2009, as measured by the FINRA Trade Reporting and Compliance Engine ( TRACE ), was \$11.4 billion, compared to \$6.7 billion in the quarter ended September 30, 2008.

***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. The commission rates are based on a number of factors, including fees charged by inter-dealer brokers in the respective markets, average bid-offer spreads in the products we offer and transaction costs through alternative channels including the telephone. 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.

**Table of Contents**

*U.S. High-Grade Corporate Bond Commissions.* Our U.S. high-grade corporate bond fee plans for fully electronic trades generally incorporate various monthly distribution fees and variable transaction fees billed to our broker-dealer clients on a monthly basis. The fee plans generally incorporate volume incentives to our broker-dealer clients that are designed to increase the volume of transactions effected on our platform. Under the fee plans, we electronically add the transaction fee to the spread quoted by the broker-dealer client. For trades that we execute between and among institutional investor and broker-dealer clients on a riskless principal basis by serving as counterparty to both the buyer and the seller, we earn our commission through the difference in price between the two back-to-back trades.

*Eurobond Commissions.* Similar to the U.S. high-grade plan, our European fee plans incorporate monthly distribution fees as well as variable transaction fees and incorporate incentives to our broker-dealer clients that are designed to increase the volume of transactions effected on our platform. The variable transaction fee is dependent on the type of bond traded and the maturity of the issue.

*Other Commissions.* Commissions for other bond and credit default swap trades generally vary based on the type and the maturity of the instrument traded. We generally operate using standard fee schedules that may include both transaction fees and monthly distribution fees that are charged to the participating dealers. For trades that we execute between and among institutional investor and broker-dealer clients on a riskless principal basis by serving as counterparty to both the buyer and the seller, we earn our commission through the difference in price between the two back-to-back trades. For trades on our DealerAxess<sup>®</sup> dealer-to-dealer electronic trading platform, we typically charge a fee to the broker-dealer clients involved in the transaction.

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 technology products and services, information services fees paid by institutional investor and broker-dealer clients, income on investments and other income.

*Technology Products and Services.* Technology products and services includes software licenses, maintenance and support services and professional consulting services. In March 2008, we acquired Greenline Financial Technologies, Inc. ( Greenline ), an Illinois-based provider of integration, testing and management solutions for FIX-related products and services.

*Information and User Access Fees.* We charge information services fees for Corporate BondTicker<sup>™</sup> to our broker-dealer clients, institutional investor clients and data-only subscribers. The information services fee is a flat monthly fee, based on the level of service. We also generate information services fees from the sale of bulk data to certain institutional investor clients and data-only subscribers. Institutional investor clients trading U.S. high-grade corporate bonds are charged a monthly user access fee for the use of our platform. The fee, billed quarterly, is charged to the client based on the number of the client's users. To encourage institutional investor clients to execute trades on our U.S. high-grade corporate bond platform, we reduce these information and user access fees for such clients once minimum quarterly trading volumes are attained.

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

*Other.* Other revenues include fees from telecommunications line charges to broker-dealer clients, dealer 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 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.



**Table of Contents**

Intangible assets with definite lives, including purchased technologies, customer relationships and other intangible assets, are amortized over their estimated useful lives, ranging from five to ten 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 non-information technology consultants for services provided for the maintenance of our trading platform and information 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, 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, primarily due to investment in new products, notably in employee compensation and benefits, professional and consulting fees, and general and administrative expense, but 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**

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 nine months ended September 30, 2009, 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, as amended, for the year ended December 31, 2008.

**Segment Results**

As an electronic, multi-dealer platform for trading fixed-income securities, our operations constitute a single business segment. Because of the highly integrated nature of the financial markets in which we compete and the integration of our worldwide business activities, we believe that results by geographic region, products or types of clients are not necessarily meaningful in understanding our business.

**Table of Contents****Results of Operations****Three Months Ended September 30, 2009 Compared to Three Months Ended September 30, 2008***Overview*

Total revenues increased by \$7.3 million or 32.3% to \$30.0 million for the three months ended September 30, 2009, from \$22.7 million for the three months ended September 30, 2008. This increase in total revenues was primarily due to an increase in commissions of \$8.1 million, offset by a decline in investment income of \$0.6 million. A 13.4% decrease in the average exchange rate of the Pound Sterling compared to the U.S. dollar from the three months ended September 30, 2008 to the three months ended September 30, 2009 had the effect of reducing European revenues by \$0.9 million.

Total expenses increased by \$0.9 million or 4.3% to \$21.5 million for the three months ended September 30, 2009, from \$20.6 million for the three months ended September 30, 2008. The increase was primarily due to higher employee compensation and benefits of \$2.0 million, offset by a decline in depreciation and amortization of \$0.8 million. The change in the foreign currency rates had the effect of reducing European expenses by \$0.5 million.

Income before taxes increased by \$6.4 million or 307.2% to \$8.5 million for the three months ended September 30, 2009, from \$2.1 million for the three months ended September 30, 2008. Net income increased by \$3.1 million or 205.5% to \$4.6 million for the three months ended September 30, 2009, from \$1.5 million for three months ended September 30, 2008.

*Revenues*

Our revenues for the three months ended September 30, 2009 and 2008, and the resulting dollar and percentage changes, were as follows:

	2009		2008		\$ Change	% Change
	\$	% of Revenues	\$ (\$ in thousands)	% of Revenues		
Commissions	\$ 25,289	84.3%	\$ 17,219	75.9%	\$ 8,070	46.9%
Technology products and services	2,601	8.7	2,646	11.7	(45)	(1.7)
Information and user access fees	1,519	5.1	1,562	6.9	(43)	(2.8)
Investment income	314	1.0	963	4.2	(649)	(67.4)
Other	286	1.0	291	1.3	(5)	(1.7)
Total revenues	\$ 30,009	100.0%	\$ 22,681	100.0%	\$ 7,328	32.3%

**Table of Contents**

*Commissions.* Our commission revenues for the three months ended September 30, 2009 and 2008, and the resulting dollar and percentage changes, were as follows:

	<b>Three Months Ended September 30,</b>			
	<b>2009</b>	<b>2008</b>	<b>\$ Change</b>	<b>% Change</b>
	<b>(\$ in thousands)</b>			
Distribution fees				
U.S. high-grade	\$ 7,551	\$ 7,457	\$ 94	1.3%
Eurobond	3,099	3,567	(468)	(13.1)
Total distribution fees	10,650	11,024	(374)	(3.4)
Variable transaction fees				
U.S. high-grade	8,755	3,320	5,435	163.7
Eurobond	2,398	860	1,538	178.8
Other	3,486	2,015	1,471	73.0
Total variable transaction fees	14,639	6,195	8,444	136.3
Total commissions	\$ 25,289	\$ 17,219	\$ 8,070	46.9%

A 13.4% change in the average exchange rate of the Pound Sterling compared to the U.S. dollar from the three months ended September 30, 2008 to the three months ended September 30, 2009 had the effect of reducing Eurobond commission revenues by \$0.9 million.

The following table shows the extent to which the increase in commissions for the three months ended September 30, 2009 was attributable to changes in transaction volumes, variable transaction fees per million and monthly distribution fees:

	<b>Change from Three Months Ended September 30, 2008</b>			
	<b>U.S. High-Grade</b>	<b>Eurobond</b>	<b>Other</b>	<b>Total</b>
	<b>(In thousands)</b>			
Volume increase	\$ 2,347	\$ 803	\$ 610	\$ 3,760
Variable transaction fee per million increase	3,088	735	861	4,684
Monthly distribution fees increase (decrease)	94	(468)		(374)
Total commissions increase	\$ 5,529	\$ 1,070	\$ 1,471	\$ 8,070

Our trading volumes for the three months ended September 30, 2009 and 2008 were as follows:

	<b>Three Months Ended September 30,</b>			
	<b>2009</b>	<b>2008</b>	<b>\$ Change</b>	<b>% Change</b>
Trading Volume Data (in millions)				
U.S. high-grade	\$ 47,019	\$ 27,548	\$ 19,471	70.7%
Eurobond	16,580	8,576	8,004	93.3
Other	16,795	12,892	3,903	30.3

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Total	\$ 80,394	\$ 49,016	\$ 31,378	64.0%
Number of U.S. Trading Days	64	64		
Number of U.K. Trading Days	65	65		

For volume reporting purposes, transactions in foreign currencies are converted to U.S. dollars at average monthly rates. Prior to September 1, 2008, no fees were charged on U.S. high-grade single-dealer inquiries. Such single-dealer inquiry trading volume amounted to \$1.4 billion and \$6.3 billion for the three and nine months ended September 30, 2008, respectively. Effective September 1, 2008, single-dealer inquiry trades are charged commissions in accordance with the U.S. high-grade corporate bond fee plan. Credit default swap trading volume data are included in Other. Trading volume data related to DealerAxess<sup>®</sup> bond trading between broker-dealer clients are included in either U.S. high-grade or Other trading volumes, as appropriate.

**Table of Contents**

The increase in U.S. high-grade volume was principally due to an increase in overall market volume as measured by the FINRA TRACE. Estimated FINRA TRACE U.S. high-grade volume increased by 69.7% from \$429.3 billion for the three months ended September 30, 2008 to \$728.5 billion for the three months ended September 30, 2009. The Company's estimated market share of total U.S. high-grade corporate bond volume as reported by FINRA TRACE was 6.5% for the three months ended September 30, 2009, compared to 6.4% for the three months ended September 30, 2008.

Our average variable transaction fee per million for the three months ended September 30, 2009 and 2008 was as follows:

	<b>Three Months Ended September</b>	
	<b>2009</b>	<b>2008</b>
<b>Average Variable Transaction Fee Per Million</b>		
U.S. high-grade	\$ 186	\$ 121
Eurobond	\$ 145	\$ 100
Other	\$ 208	\$ 156
All Products	\$ 182	\$ 126

The U.S. high-grade average variable transaction fee per million increased from \$121 for the three months ended September 30, 2008 to \$186 for the three months ended September 30, 2009, primarily due to the introduction of our execution services desk and the introduction of new dealers on the platform that pay higher variable fees per million. The Eurobond average variable transaction fee per million increased from \$100 for the three months ended September 30, 2008 to \$145 for the three months ended September 30, 2009, primarily due to a larger percentage of Eurobond volume in products that carry higher fees per million, principally high-yield bonds. Other average variable transaction fee per million increased from \$156 for the three months ended September 30, 2008 to \$208 for the three months ended September 30, 2009, primarily due to a larger percentage of Other volume in products that carry higher fees per million, principally high-yield bonds.

*Technology Products and Services.* Technology products and services revenues were \$2.6 million for the both three months ended September 30, 2009 and 2008.

*Information and User Access Fees.* Information and user access fees decreased by 2.8% to \$1.5 million for the three months ended September 30, 2009, from \$1.6 million for the three months ended September 30, 2008.

*Investment Income.* Investment income decreased by \$0.6 million or 67.4% to \$0.3 million for the three months ended September 30, 2009, from \$1.0 million for the three months ended September 30, 2008. The decrease was principally due to lower interest rates.

*Other.* Other revenues were \$0.3 million for both the three months ended September 30, 2009 and 2008.



**Table of Contents***Expenses*

Our expenses for the three months ended September 30, 2009 and 2008, and the resulting dollar and percentage changes, were as follows:

	Three Months Ended September 30,					
	2009		2008		\$ Change	% Change
	\$	% of Revenues	\$ (\$ in thousands)	% of Revenues		
Employee compensation and benefits	\$ 13,127	43.7%	\$ 11,173	49.3%	\$ 1,954	17.5%
Depreciation and amortization	1,654	5.5	2,494	11.0	(840)	(33.7)
Technology and communications	2,029	6.8	2,007	8.8	22	1.1
Professional and consulting fees	1,645	5.5	1,822	8.0	(177)	(9.7)
Occupancy	706	2.4	660	2.9	46	7.0
Marketing and advertising	651	2.2	708	3.1	(57)	(8.1)
General and administrative	1,654	5.5	1,719	7.6	(65)	(3.8)
<b>Total expenses</b>	<b>\$ 21,466</b>	<b>71.5%</b>	<b>\$ 20,583</b>	<b>90.7%</b>	<b>\$ 883</b>	<b>4.3%</b>

*Employee Compensation and Benefits.* Employee compensation and benefits increased by \$2.0 million or 17.5% to \$13.1 million for the three months ended September 30, 2009, from \$11.2 million for the three months ended September 30, 2008. This increase was primarily attributable to higher incentive compensation of \$2.1 million and stock-based compensation expense of \$0.3 million, offset by reduced severance costs of \$0.7 million.

*Depreciation and Amortization.* Depreciation and amortization decreased by \$0.8 million or 33.7% to \$1.7 million for the three months ended September 30, 2009, from \$2.5 million for the three months ended September 30, 2008. During the third quarter of 2008, the Company determined that the technology, customer relationships and tradename intangible assets recognized in connection with the TWS acquisition were impaired and recorded a charge of \$0.7 million. For the three months ended September 30, 2009 and 2008, we capitalized \$0.6 million and \$0.7 million, respectively, of computer and related equipment purchases and \$0.4 million and \$0.5 million, respectively, of software development costs.

*Technology and Communications.* Technology and communications expenses were \$2.0 million for both the three months ended September 30, 2009 and 2008.

*Professional and Consulting Fees.* Professional and consulting fees decreased by \$0.2 million or 9.7% to \$1.6 million for the three months ended September 30, 2009, from \$1.8 million for the three months ended September 30, 2008. The decrease was principally due to lower technology consulting costs.

*Occupancy.* Occupancy costs were \$0.7 million for both the three months ended September 30, 2009 and 2008.

*Marketing and Advertising.* Marketing and advertising expenses were \$0.7 million for both the three months ended September 30, 2009 and 2008.

*General and Administrative.* General and administrative expenses were \$1.7 million for both the three months ended September 30, 2009 and 2008.

*Provision for Income Tax.* For the three months ended September 30, 2009 and 2008, we recorded an income tax provision of \$3.9 million and \$0.6 million, respectively. The increase in the tax provision was primarily attributable to the \$6.4 million increase in pre-tax income for the period. With the exception of the payment of certain foreign and alternative minimum taxes, the provision for income taxes was a non-cash expense since we had available net operating loss carryforwards and tax credits to offset the cash payment of taxes.

Our consolidated effective tax rate for the three months ended September 30, 2009 was 45.7%, compared to 27.6% for the three months ended September 30, 2008. The 2009 effective tax rate reflects the impact of newly enacted apportionment rules in New York City. The new rules will reduce the Company's overall tax rate prospectively. However, for the three months ended September 30,

**Table of Contents**

2009, the reduced rate resulted in a reduction in our deferred tax asset and an increase in tax expense of \$0.6 million. The 2008 effective tax rate reflected the effect of a higher portion of earnings generated in lower tax jurisdictions and the level of foreign and domestic taxation on such overseas earnings. Our consolidated effective tax rate can vary from period to period depending on, among other factors, the geographic and business mix of our earnings and changes in tax legislation and tax rates. Due to our net deferred tax asset balance, a decrease in tax rates results in a reduction in our deferred tax balance and an increase in tax expense.

***Nine Months Ended September 30, 2009 Compared to Nine Months Ended September 30, 2008******Overview***

Total revenues increased by \$9.2 million or 12.9% to \$80.5 million for the nine months ended September 30, 2009, from \$71.3 million for the nine months ended September 30, 2008. This increase in total revenues was primarily due to an increase in commissions of \$10.9 million and technology products and services revenues of \$0.6 million, offset by a decline in investment income of \$1.8 million and other income of \$0.7 million. Technology products and services revenues reflect the impact of the Greenline acquisition in March 2008. A 20.5% decrease in the average exchange rate of the Pound Sterling compared to the U.S. dollar from the nine months ended September 30, 2008 to the nine months ended September 30, 2009 had the effect of reducing European revenues by \$3.8 million.

Total expenses increased 0.1% to \$61.5 million for the nine months ended September 30, 2009, from \$61.4 million for the nine months ended September 30, 2008. An increase in employee compensation and benefits of \$2.7 million was offset by declines in professional and consulting fees of \$1.4 million, depreciation and amortization of \$1.0 million and general and administrative expenses of \$0.4 million. The change in the foreign currency rates had the effect of reducing European expenses by \$2.2 million. The 2008 results include Greenline expenses from the date of the acquisition.

Income before taxes increased by \$9.2 million or 93.5% to \$19.0 million for the nine months ended September 30, 2009, from \$9.8 million for the nine months ended September 30, 2008. Net income increased by \$4.7 million or 78.9% to \$10.7 million for the nine months ended September 30, 2009, from \$6.0 million for nine months ended September 30, 2008.

***Revenues***

Our revenues for the nine months ended September 30, 2009 and 2008, and the resulting dollar and percentage changes, were as follows:

	2009		2008		\$ Change	% Change
	\$	% of Revenues	\$	% of Revenues		
Commissions	\$ 67,565	84.0%	\$ 56,652	79.5%	\$ 10,913	19.3%
Technology products and services	6,720	8.3	6,089	8.5	631	10.4
Information and user access fees	4,678	5.8	4,485	6.3	193	4.3
Investment income	880	1.1	2,715	3.8	(1,835)	(67.6)
Other	637	0.8	1,316	1.8	(679)	(51.6)
Total revenues	\$ 80,480	100.0%	\$ 71,257	100.0%	\$ 9,223	12.9%

**Table of Contents**

*Commissions.* Our commission revenues for the nine months ended September 30, 2009 and 2008, and the resulting dollar and percentage changes, were as follows:

	<b>Nine Months Ended September 30,</b>			
	<b>2009</b>	<b>2008</b>	<b>\$ Change</b>	<b>% Change</b>
	(\$ in thousands)			
Distribution fees				
U.S. high-grade	\$ 22,293	\$ 23,312	\$ (1,019)	(4.4)%
Eurobond	9,057	11,130	(2,073)	(18.6)
<b>Total distribution fees</b>	<b>31,350</b>	<b>34,442</b>	<b>(3,092)</b>	<b>(9.0)</b>
Variable transaction fees				
U.S. high-grade	21,336	12,421	8,915	71.8
Eurobond	5,294	3,006	2,288	76.1
Other	9,585	6,783	2,802	41.3
<b>Total variable transaction fees</b>	<b>36,215</b>	<b>22,210</b>	<b>14,005</b>	<b>63.1</b>
<b>Total commissions</b>	<b>\$ 67,565</b>	<b>\$ 56,652</b>	<b>\$ 10,913</b>	<b>19.3%</b>

U.S. high-grade distribution fees decreased as a result of mergers and a bankruptcy involving several of our broker-dealer clients. A 20.5% change in the average exchange rate of the Pound Sterling compared to the U.S. dollar from the nine months ended September 30, 2008 to the nine months ended September 30, 2009 had the effect of reducing Eurobond commission revenues by \$3.7 million.

The following table shows the extent to which the increase in commissions for the nine months ended September 30, 2009 was attributable to changes in transaction volumes, variable transaction fees per million and monthly distribution fees:

	<b>Change from Nine Months Ended September 30, 2008</b>			
	<b>U.S. High-Grade</b>	<b>Eurobond</b>	<b>Other</b>	<b>Total</b>
	(In thousands)			
Volume increase	\$ 1,455	\$ 1,098	\$ 123	\$ 2,676
Variable transaction fee per million increase	7,460	1,190	2,679	11,329
Monthly distribution fees (decrease)	(1,019)	(2,073)		(3,092)
<b>Total commissions increase (decrease)</b>	<b>\$ 7,896</b>	<b>\$ 215</b>	<b>\$ 2,802</b>	<b>\$ 10,913</b>

Our trading volumes for the nine months ended September 30, 2009 and 2008 were as follows:

	<b>Nine Months Ended September 30,</b>			
	<b>2009</b>	<b>2008</b>	<b>\$ Change</b>	<b>% Change</b>
Trading Volume Data (in millions)				
U.S. high-grade	\$ 121,768	\$ 108,999	\$ 12,769	11.7%
Eurobond	38,841	28,447	10,394	36.5
Other	46,677	45,846	831	1.8

Total	\$ 207,286	\$ 183,292	\$ 23,994	13.1%
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Number of U.S. Trading Days	188	189
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Number of U.K. Trading Days	189	190
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The increase in U.S. high-grade volume was due to an increase in overall market volume as measured by the FINRA TRACE, offset by a decline in the Company's estimated market share of total U.S. high-grade corporate bond volume as reported by FINRA TRACE from 7.1% for the nine months ended September 30, 2008 to 5.6% for the nine months ended September 30, 2009. Estimated FINRA TRACE U.S. high-grade volume increased by 42.3% from \$1,531.9 billion for the nine months ended September 30, 2008 to \$2,180.0 billion for the nine months ended September 30, 2009.

**Table of Contents**

Our average variable transaction fee per million for the nine months ended September 30, 2009 and 2008 was as follows:

	<b>Nine Months Ended September 30,</b>	
	<b>2009</b>	<b>2008</b>
<b>Average Variable Transaction Fee Per Million</b>		
U.S. high-grade	\$ 175	\$ 114
Eurobond	\$ 136	\$ 106
Other	\$ 205	\$ 148
All Products	\$ 175	\$ 121

The U.S. high-grade average variable transaction fee per million increased from \$114 for the nine months ended September 30, 2008 to \$175 for the nine months ended September 30, 2009, primarily due to the introduction of our execution services desk, the introduction of new dealers on the platform that pay higher variable fees per million and the longer maturity of trades executed on the platform, for which we charge higher commissions. Eurobond average variable transaction fee per million increased from \$106 for the nine months ended September 30, 2008 to \$136 for the nine months ended September 30, 2009, primarily due to a larger percentage of Eurobond volume in products that carry higher fees per million, principally high-yield bonds. Other average variable transaction fee per million increased from \$148 for the nine months ended September 30, 2008 to \$205 for the nine months ended September 30, 2009, primarily due to a larger percentage of Other volume in products that carry higher fees per million, principally high-yield bonds.

*Technology Products and Services.* Technology products and services revenues increased by \$0.6 million or 10.4% to \$6.7 million for the nine months ended September 30, 2009, from \$6.1 million for the nine months ended September 30, 2008. The increase was primarily a result of the Greenline acquisition in March 2008.

*Information and User Access Fees.* Information and user access fees increased by \$0.2 million or 4.3% to \$4.7 million for the nine months ended September 30, 2009, from \$4.5 million for the nine months ended September 30, 2008.

*Investment Income.* Investment income decreased by \$1.8 million or 67.6% to \$0.9 million for the nine months ended September 30, 2009, from \$2.7 million for the nine months ended September 30, 2008. The decrease was principally due to lower interest rates.

*Other.* Other revenues decreased by \$0.7 million or 51.6% to \$0.6 million for the nine months ended September 30, 2009, from \$1.3 million for the nine months ended September 30, 2008. The 2008 revenues include higher dealer set-up fees and a one-time insurance settlement aggregating \$0.3 million.

**Table of Contents***Expenses*

Our expenses for the nine months ended September 30, 2009 and 2008, and the resulting dollar and percentage changes, were as follows:

	2009		2008		\$ Change	% Change
	\$	% of Revenues	\$ (\$ in thousands)	% of Revenues		
Employee compensation and benefits	\$ 36,486	45.3%	\$ 33,767	47.4%	\$ 2,719	8.1%
Depreciation and amortization	5,124	6.4	6,090	8.5	(966)	(15.9)
Technology and communications	6,391	7.9	6,160	8.6	231	3.8
Professional and consulting fees	5,137	6.4	6,496	9.1	(1,359)	(20.9)
Occupancy	2,075	2.6	2,166	3.0	(91)	(4.2)
Marketing and advertising	2,004	2.5	2,077	2.9	(73)	(3.5)
General and administrative	4,253	5.3	4,679	6.6	(426)	(9.1)
<b>Total expenses</b>	<b>\$ 61,470</b>	<b>76.4%</b>	<b>\$ 61,435</b>	<b>86.2%</b>	<b>\$ 35</b>	<b>0.1%</b>

*Employee Compensation and Benefits.* Employee compensation and benefits increased by \$2.7 million or 8.1% to \$36.5 million for the nine months ended September 30, 2009, from \$33.8 million for the nine months ended September 30, 2008. This increase was primarily attributable to higher incentive compensation of \$2.5 million and stock-based compensation expense of \$1.0 million, offset by reduced severance costs of \$1.2 million.

*Depreciation and Amortization.* Depreciation and amortization expense decreased by \$1.0 million or 15.9% to \$5.1 million for the nine months ended September 30, 2009, from \$6.1 million for the nine months ended September 30, 2008. The decrease was due to declines in amortization of intangible assets of \$0.5 million and software development costs of \$0.4 million. The intangible amortization expense reduction was primarily due to the \$0.7 million TWS impairment charge recorded in 2008. For the nine months ended September 30, 2009 and 2008, we capitalized \$1.4 million and \$1.9 million, respectively, of software development costs, and \$1.6 million and \$1.3 million, respectively, of computer and related equipment purchases.

*Technology and Communications.* Technology and communications expense increased by \$0.2 million or 3.8% to \$6.4 million for the nine months ended September 30, 2009, from \$6.2 million for the nine months ended September 30, 2008. This increase was primarily attributable to higher data center hosting costs.

*Professional and Consulting Fees.* Professional and consulting fees decreased by \$1.4 million or 20.9% to \$5.1 million for the nine months ended September 30, 2009, from \$6.5 million for the nine months ended September 30, 2008. The decrease was principally due to lower legal fees of \$0.6 million and information technology consultant costs of \$0.5 million.

*Occupancy.* Occupancy costs decreased by \$0.1 million or 4.2% to \$2.1 million for the nine months ended September 30, 2009, from \$2.2 million for the nine months ended September 30, 2008.

*Marketing and Advertising.* Marketing and advertising expenses decreased by \$0.1 million or 3.5% to \$2.0 million for the nine months ended September 30, 2009, from \$2.1 million for the nine months ended September 30, 2008, principally due to a reduction in promotion costs.

*General and Administrative.* General and administrative expense decreased by \$0.4 million or 9.1% to \$4.3 million for the nine months ended September 30, 2009, from \$4.7 million for the nine months ended September 30, 2008. Higher trade settlement costs of \$0.3 million were more than offset by lower charges for doubtful accounts and

general travel and entertainment expenses.

*Provision for Income Tax.* For the nine months ended September 30, 2009 and 2008, we recorded an income tax provision of \$8.3 million and \$3.9 million, respectively. The increase in the tax provision was primarily attributable to the \$9.2 million increase in pre-tax income for the period. With the exception of the payment of certain foreign taxes and alternative minimum taxes, the



**Table of Contents**

provision for income taxes was a non-cash expense since we had available net operating loss carryforwards and tax credits to offset the cash payment of taxes.

Our consolidated effective tax rate for the nine months ended September 30, 2009 was 43.9%, compared to 39.3% for the nine months ended September 30, 2008. The 2009 effective tax rate reflects the impact of newly enacted apportionment rules in New York City. The new rules will reduce the Company's overall tax rate prospectively. However, for the nine months ended September 30, 2009 the reduced rate resulted in a reduction in our deferred tax asset and an increase in tax expense of \$0.6 million. Our consolidated effective tax rate can vary from period to period depending on, among other factors, the geographic and business mix of our earnings and changes in tax legislation and tax rates. Due to our net deferred tax asset balance, a decrease in tax rates results in a reduction in our deferred tax balance and an increase in tax expense.

**Liquidity and Capital Resources**

During the past three years, we have met our funding requirements through cash on hand, internally generated funds and the issuance of Series B Preferred Stock. Cash and cash equivalents and securities available-for-sale totaled \$162.3 million at September 30, 2009. Other than equipment-related capital lease obligations amounting to \$1.2 million as of September 30, 2009, we have no long-term or short-term debt and do not maintain bank lines of credit.

In October 2009, our board of directors approved a regular quarterly dividend to be paid to the holders of the outstanding shares of capital stock. A cash dividend of \$0.07 per share of common stock outstanding or issuable upon conversion of shares of non-voting common stock and Series B Preferred Stock outstanding, will be payable on November 25, 2009, to stockholders of record as of the close of business on November 11, 2009. We expect the total amount payable to be approximately \$2.7 million.

Our cash flows were as follows:

	<b>Nine Months Ended September 30,</b>	
	<b>2009</b>	<b>2008</b>
	<b>(In thousands)</b>	
Net cash provided by operating activities	\$ 24,013	\$ 17,849
Net cash (used in) investing activities	(24,834)	(5,239)
Net cash (used in) provided by financing activities	(18)	30,352
Effect of exchange rate changes on cash	(351)	(711)
Net (decrease) increase for the period	\$ (1,190)	\$ 42,251

**Operating Activities**

Net cash provided by operating activities of \$24.0 million for the nine months ended September 30, 2009 consisted of net income of \$10.7 million, adjusted for non-cash charges, primarily consisting of depreciation and amortization of \$5.1 million, stock-based compensation expense of \$6.3 million and deferred taxes of \$7.2 million, offset by an increase in cash used for working capital of \$5.9 million. The use of working capital primarily resulted from an increase in accounts receivable of \$11.0 million, offset by increases in deferred revenue of \$2.1 million and accounts payable, accrued expenses and other liabilities of \$2.4 million.

Net cash provided by operating activities of \$17.8 million for the nine months ended September 30, 2008 consisted of net income of \$6.0 million, adjusted for non-cash charges, primarily consisting of depreciation and amortization of \$6.1 million, stock-based compensation expense of \$5.3 million and deferred taxes of \$3.9 million, offset by an increase in cash used for working capital of \$4.3 million. The use of working capital primarily resulted from a decrease in accrued employee compensation of \$6.0 million, which included the payment of annual bonuses of \$13.4 million in January 2008, and a decrease in accounts payable, accrued expense and other liabilities of \$2.6 million, offset by a decrease in accounts receivable of \$2.6 million.

**Investing Activities**

Net cash used in investing activities of \$24.8 million for the nine months ended September 30, 2009 primarily consisted of net purchases of securities available-for-sale of \$20.2 million, an earn-out payment related to the acquisition of Greenline of \$1.4 million, purchases of furniture, equipment and leasehold improvements of \$1.6 million and capitalization of software development costs of \$1.4 million.

**Table of Contents**

Net cash used in investing activities of \$5.2 million for the nine months ended September 30, 2008 primarily consisted of \$34.9 million for the acquisition of Greenline, purchases of furniture, equipment and leasehold improvements of \$1.3 million and capitalization of software development costs of \$1.9 million, offset by net maturities of securities available-for-sale of \$32.8 million.

**Financing Activities**

Net cash used in financing activities of \$18,000 for the nine months ended September 30, 2009 consisted principally of a decrement in windfall tax benefits from stock-based compensation of \$0.3 million, offset by proceeds from the exercise of stock options of \$0.2 million.

Net cash provided by financing activities of \$30.4 million for the nine months ended September 30, 2008 primarily consisted of the net proceeds from the issuance of the Series B Preferred Stock and related common stock purchase warrants of \$33.5 million, offset by the purchase of treasury stock of \$2.8 million.

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 are dependent on our broker-dealer clients, three of which are also our stockholders, who are not restricted from buying and selling fixed-income securities, directly or through their own proprietary or third-party platforms, with institutional investors. None of our broker-dealer clients is contractually or otherwise obligated to continue to use our electronic trading platform. The loss of, or a significant reduction in the use of our electronic platform by, our broker-dealer clients could reduce our cash flows, affect our liquidity and have a material adverse effect on our business, financial condition and results of operations.

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 may involve restrictive covenants with respect to dividends, issuances of additional capital and other financial and operational matters related to our business.

We have three regulated subsidiaries, MarketAxess Corporation, MarketAxess Europe Limited and MarketAxess Canada Ltd. MarketAxess Corporation is a registered broker-dealer in the U.S., MarketAxess Europe Limited is a registered multilateral trading facility in the U.K. and MarketAxess Canada Ltd. is a registered Alternative Trading System in the Province of Ontario. As such, they are subject to minimum regulatory capital requirements imposed by their respective market regulators that are intended to ensure general financial soundness and liquidity based on certain minimum capital requirements. The relevant regulations prohibit a registrant from repaying borrowings from its parent or affiliates, paying cash dividends, making loans to its parent or affiliates or otherwise entering into transactions that result in a significant reduction in its regulatory net capital position without prior notification to or approval from its principal regulator. The capital structures of our subsidiaries are designed to provide each with capital and liquidity consistent with its business and regulatory requirements. The following table sets forth the capital requirements, as defined, that the Company's subsidiaries were required to maintain as of September 30, 2009:

	<b>MarketAxess Corporation</b>	<b>MarketAxess Europe Limited (In thousands)</b>	<b>MarketAxess Canada Limited</b>
Net capital	\$ 38,187	\$ 21,599	\$ 388
Minimum net capital required	1,217	2,753	257
Excess net capital	\$ 36,970	\$ 18,846	\$ 131

MarketAxess Corporation operates an anonymous matching service for its broker-dealer clients and during 2008 extended its trading counterparty role to include the execution of certain bond transactions between and among institutional investor and broker-dealer clients. MarketAxess Corporation executes all such trades on a riskless principal basis, which are cleared and settled by an

**Table of Contents**

independent clearing broker. Under a securities clearing agreement with the independent third party, MarketAxess Corporation maintains a collateral deposit with the clearing broker in the form of cash. As of September 30, 2009 and December 31, 2008, the collateral deposit included in securities and cash provided as collateral in the Consolidated Statements of Financial Condition was \$0.5 million. MarketAxess Corporation is exposed to credit risk in the event a counterparty does not fulfill its obligation to complete a transaction. Pursuant to the terms of the securities clearing agreement between MarketAxess Corporation and the independent clearing broker, the clearing broker has the right to charge MarketAxess Corporation 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 September 30, 2009, MarketAxess Corporation 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 loss to be remote.

**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**

As of September 30, 2009, we had the contractual obligations and commitments detailed in the following table:

	Total	Payments due by period			More than 5 years
		Less than 1 year	1 - 3 years (In thousands)	3 - 5 years	
Operating leases	\$ 23,170	\$ 584	\$ 3,786	\$ 3,933	\$ 14,867
Capital leases	1,456	84	672	658	42
Foreign currency forward contract	25,766	25,766			
	\$ 50,392	\$ 26,434	\$ 4,458	\$ 4,591	\$ 14,909

We enter into foreign currency forward contracts with a noncontrolling stockholder broker-dealer client to hedge the exposure to variability in foreign currency cash flows resulting from the net investment in our U.K. subsidiary. As of September 30, 2009, the notional value of the foreign currency forward contract outstanding was \$26.4 million and the gross and net fair value asset was \$0.6 million.

As of September 30, 2009, we had unrecognized tax benefits of \$2.8 million. Due to the nature of the underlying positions, it is not currently possible to schedule the future payment obligations by period. In addition, in connection with the acquisition of Greenline, the sellers are eligible to receive up to an aggregate of \$1.5 million in cash in 2010, subject to Greenline attaining certain earn-out targets in 2009. The amount of the earn-out ultimately payable, if any, is currently unknown.

In July 2009, we entered into two lease agreements for office space with a February 2022 lease termination date. The aggregate amount of the future lease obligations under these two leases is \$17.1 million, which amount is reflected in the commitment table above.

**Table of Contents****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 September 30, 2009, we had a \$56.2 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, U.S. Treasury obligations and short-term fixed-income securities in which we invest. As of September 30, 2009, our cash and cash equivalents and securities available-for-sale amounted to \$162.3 million and were primarily in money market instruments, U.S. government obligations 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. subsidiary. As of September 30, 2009, the notional value of our foreign currency forward contract was \$26.4 million. We do not speculate in any derivative instruments.

***Credit Risk***

We act as a riskless principal through our subsidiary, MarketAxess Corporation, in certain transactions that we execute between clients. We act as an intermediary in these transactions by serving as counterparty to both the buyer and the seller in matching back-to-back bond trades, which are then settled through a third-party clearing organization. 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.

We are exposed to credit risk in our role as trading counterparty to our clients. We are exposed to the risk that third parties that owe us money, securities or other assets will not perform their obligations. These parties may default on their obligations to us due to bankruptcy, lack of liquidity, operational failure or other reasons. Adverse movements in the prices of securities that are the subject of these transactions can increase our risk. Where the unmatched position or failure to deliver is prolonged, there may also be regulatory capital charges required to be taken by us. The policies and procedures we use to manage this credit risk are new and untested. There can be no assurance that these policies and procedures will effectively mitigate our exposure to credit risk.

**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 September 30, 2009. 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 Securities and Exchange Commission'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.



**Table of Contents**

(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 September 30, 2009 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.



**Table of Contents****PART II Other Information****Item 1. Legal Proceedings**

In January 2007, a former employee of MarketAxess Corporation commenced an arbitration proceeding before FINRA arising out of the May 2006 termination of such individual's employment with MarketAxess Corporation. This individual subsequently amended his statement of claim to add MarketAxess Holdings Inc. as a party to the arbitration proceeding. FINRA consolidated all of the former employee's claims into a single proceeding.

The former employee alleges that we acted wrongfully as a result of, and in connection with, the decision by the Compensation Committee of our Board of Directors not to accede to the employee's demand for alteration of the terms of certain stock option and restricted stock agreements in order to award the employee additional rights and benefits upon the termination of his employment, *i.e.*, accelerated vesting of all of his then unvested options and restricted shares and waiver of the 90-day time period within which he was contractually required to exercise his vested options. This former employee further alleges that he is entitled to a bonus for the approximately five months that he worked for MarketAxess Corporation during 2006. The alleged damages sought by the claimant total approximately \$0.9 million, plus statutory interest, and an unstated amount of punitive damages, costs and expenses.

The FINRA hearing, originally scheduled for February 2009, was further postponed in September 2009 and has been rescheduled for March 2-5, 2010. We believe that the former employee's claims are wholly without merit and have vigorously defended against them. Based on currently available information, we believe that the likelihood of a material loss is not probable. Accordingly, no amount has been provided in the financial statements. However, arbitration is subject to inherent uncertainties and unfavorable rulings could occur.

**Item 1A. Risk Factors**

Risks that could have a negative impact on our business, results of operations and financial condition include: the level and intensity of competition in the fixed-income electronic trading industry and the pricing pressures that may result; the variability of our growth rate; the level of trading volume transacted on the MarketAxess platform; potential fluctuations in our operating results, which may cause our stock price to decline; the absolute level and direction of interest rates and the corresponding volatility in the corporate fixed-income market; our ability to develop new products and offerings and the market's acceptance of those products; our dependence on our broker-dealer clients, three of which were also our stockholders as of January 1, 2009; non-performance by counterparties to certain transactions executed between our clients in which we act as an intermediary; technology failures, security breaches or rapid technology changes that may harm our business; our ability to enter into strategic alliances and to acquire other businesses and successfully integrate them with our business; extensive government regulation; continuing international expansion that may present economic and regulatory challenges; and our future capital needs and our ability to obtain capital when needed. This list is intended to identify only certain of the principal factors that could have a material adverse impact on our business, results of operations and financial condition. A more detailed description of each of these and other important risk factors can be found under the caption "Risk Factors" in our most recent Form 10-K, as amended, for the year ended December 31, 2008. There have been no material changes to the risk factors described in such Form 10-K, as amended.

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

None.

**Table of Contents****Issuer Purchases of Equity Securities**

During the quarter ended September 30, 2009, we repurchased the following shares of common stock:

<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans</b>	<b>Dollar Value of Shares That May Yet Be Purchased Under the Plans (In thousands) \$</b>
July 1, 2009 – July 31, 2009	3,405	\$ 10.04		\$
August 1, 2009 – August 31, 2009				
September 1, 2009 – September 30, 2009				
	3,405	\$ 10.04		

During the three months ended September 30, 2009, a total of 3,405 shares were forfeited by an employee to us to satisfy employee withholding tax obligations upon the vesting of restricted shares.

**Item 3. Defaults upon Senior Securities**

None.

**Item 4. Submission of Matters to a Vote of Security Holders**

None.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

Exhibit Listing:

<b>Number</b>	<b>Description</b>
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
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
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
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

**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MARKETAXESS HOLDINGS INC.

Date: October 30, 2009

By: /s/ RICHARD M. MCVEY  
Richard M. McVey  
Chief Executive Officer  
(principal executive officer)

Date: October 30, 2009

By: /s/ JAMES N.B. RUCKER  
James N. B. Rucker  
Chief Financial Officer  
(principal financial and accounting  
officer)