

MARKETAXESS HOLDINGS INC

Form 10-K

February 17, 2012

Table of Contents

Index to Financial Statements

## UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

### Form 10-K

(Mark One)

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

For the fiscal year ended December 31, 2011

**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 of incorporation)*

**299 Park Avenue, New York, New York**

*(Address of principal executive offices)*

**52-2230784**

*(IRS Employer Identification No.)*

**10171**

*(Zip Code)*

**(212) 813-6000**

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

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**SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:**

<b>Title of each class:</b>	<b>Name of each exchange on which registered:</b>
Common Stock, par value \$0.003 per share	NASDAQ Global Select Market

**SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:**

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes  No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

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

The aggregate market value of the shares of common stock and non-voting common stock held by non-affiliates of the registrant as of June 30, 2011 (the last business day of the registrant's most recently completed second fiscal quarter) was approximately \$922.6 million computed by reference to the last reported sale price on the NASDAQ Global Select Market on that date. For purposes of this calculation, affiliates are considered to be officers, directors and holders of 10% or more of the outstanding common stock of the registrant on that date. The registrant had 36,728,696 shares of common stock, 1,193,029 of which were held by affiliates, and 2,585,654 shares of non-voting common stock outstanding on that date.

At February 16, 2012, the aggregate number of shares of the registrant's common stock and non-voting common stock outstanding was 38,190,699.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's definitive proxy statement for the 2012 Annual Meeting of Stockholders are incorporated by reference into Items 10, 11, 12, 13 and 14 of Part III of this Form 10-K.

**Table of Contents**

**Index to Financial Statements**

**MARKETAXESS HOLDINGS INC.**

**2011 FORM 10-K ANNUAL REPORT**

**TABLE OF CONTENTS**

	<b>Page</b>
<b>PART I</b>	
Item 1: <u>Business</u>	3
Item 1A: <u>Risk Factors</u>	25
Item 1B: <u>Unresolved Staff Comments</u>	40
Item 2: <u>Properties</u>	40
Item 3: <u>Legal Proceedings</u>	41
Item 4: <u>Mine Safety Disclosures</u>	41
<b>PART II</b>	
Item 5: <u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	41
Item 6: <u>Selected Financial Data</u>	44
Item 7: <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	46
Item 7A: <u>Quantitative and Qualitative Disclosures about Market Risk</u>	68
Item 8: <u>Financial Statements and Supplementary Data</u>	70
Item 9: <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	97
Item 9A: <u>Controls and Procedures</u>	97
Item 9B: <u>Other Information</u>	97
<b>PART III</b>	
Item 10: <u>Directors, Executive Officers and Corporate Governance</u>	98
Item 11: <u>Executive Compensation</u>	98
Item 12: <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	98
Item 13: <u>Certain Relationships and Related Transactions and Director Independence</u>	98
Item 14: <u>Principal Accounting Fees and Services</u>	99
<b>PART IV</b>	
Item 15: <u>Exhibits and Financial Statement Schedules</u>	100

---

**Table of Contents**

**Index to Financial Statements**

**PART I**

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

**Item 1. Business.**

MarketAxess Holdings Inc. (the Company or MarketAxess) operates a leading electronic trading platform that allows investment industry professionals to efficiently trade corporate bonds and other types of fixed-income instruments. Our over 850 active institutional investor clients (firms that executed at least one trade in U.S. or European fixed-income securities through our electronic trading platform during 2011) include investment advisers, mutual funds, insurance companies, public and private pension funds, bank portfolios, broker-dealers and hedge funds. Our 87 broker-dealer market-maker clients provide liquidity on the platform and include most of the leading broker-dealers in global fixed-income trading. 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. 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, asset-backed and preferred securities and credit default swaps (CDS).

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 general and administrative expenses.

Traditionally, bond trading has been a manual process, with product and price discovery conducted over the telephone between two or more parties. This traditional process has a number of shortcomings resulting primarily from the lack of a central trading facility for these securities, which creates difficulty matching buyers and sellers for particular issues. Many corporate bond trading participants use e-mail and other electronic means of

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**Table of Contents**

**Index to Financial Statements**

communication for trading corporate bonds. While this has addressed some of the shortcomings associated with traditional corporate bond trading, we believe that the process is still hindered by limited liquidity, limited price transparency, significant transaction costs, compliance and regulatory challenges, and difficulty in executing numerous trades at one time.

Through our disclosed multi-dealer Request For Quote ( RFQ ) trading functionality, our institutional investor clients can determine prices available for a security, a process called price discovery, as well as trade securities directly with our broker-dealer clients. The price discovery process includes the ability to view indicative prices from the broker-dealer clients' inventory available on our platform, access to real-time pricing information and analytical tools (including spread-to-Treasury data, search capabilities and independent third-party credit research) available on our Corporate BondTicker™ service and the ability to request executable bids and offers simultaneously from up to 62 of our broker-dealer clients during the trade process. On average, institutional investor clients receive several bids or offers from broker-dealer clients in response to trade inquiries. However, some trade inquiries may not receive any bids or offers.

Our services relating to trade execution include single and multiple-dealer inquiries; list trading, which is the ability to request bids and offers on multiple bonds at the same time; and swap trading, which is the ability to request an offer to purchase one bond and a bid to sell another bond, in a manner such that the two trades will be executed simultaneously, with payment based on the price differential of the bonds. Once a trade is completed on our platform, the broker-dealer client and institutional investor client may settle the trade with the assistance of our automated post-trade messaging, which facilitates the communication of trade acknowledgment and allocation information between our institutional investor and broker-dealer clients.

Typically, we are not a party to the trades that occur on our platform between institutional investor clients and broker-dealer clients; rather, we serve as an intermediary between broker-dealers and institutional investors, enabling them to meet, agree on a price and then transact with each other. However, we also 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 are then settled through a third-party clearing organization. These are primarily voice-assisted trades, a service that we introduced as an adjunct to RFQ trading during late 2008 in response to the adverse effect of the credit crisis on dealer liquidity in corporate bonds. We act as intermediary on a riskless principal basis in these bond transactions by serving as counterparty to the two clients involved.

Our broker-dealer clients accounted for approximately 97% of the underwriting of newly-issued U.S. corporate bonds and approximately 64% of the underwriting of newly issued European corporate bonds in 2011. We believe these broker-dealers also represent the principal source of secondary market liquidity in the other markets in which we operate. Secondary market liquidity refers to the ability of market participants to buy or sell a security quickly and in large volume subsequent to the original issuance of the security, without substantially affecting the price of the security. In addition to trading fixed-income securities by traditional means, including the telephone and e-mail, our broker-dealer clients use proprietary single-dealer systems and other trading platforms as well as our electronic trading platform. We believe that the traditional means of trading remain the manner in which the majority of bonds are traded between institutional investors and broker-dealers.

Our volume in U.S. high-grade corporate bonds represented approximately 11.1% of the total U.S. high-grade corporate bond volume, excluding convertible bonds, for 2011 as reported by the Financial Industry Regulatory Authority ( FINRA ) Trade Reporting and Compliance Engine ( TRACE ), which includes inter-dealer and retail trading as well as trading between institutional investors and broker-dealers.

**Industry Background**

Fixed-income securities are issued by corporations, governments and other entities, and pay a pre-set absolute or relative rate of return. As of September 30, 2011, the most recent date available, there were

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**Table of Contents**

**Index to Financial Statements**

approximately \$36.4 trillion principal amount of fixed-income securities outstanding in the U.S. market, including \$7.7 trillion principal amount of U.S. corporate bonds, according to the Securities Industry and Financial Markets Association (SIFMA). The estimated average daily trading volume of U.S. corporate bonds (investment grade and high-yield), as measured by FINRA TRACE, was \$16.1 billion in 2011.

The U.S. and European credit markets experienced a period of significant turmoil beginning during 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. The U.S. credit markets demonstrated significant improvement throughout 2009, 2010 and early 2011. Beginning in the second half of 2011, however, credit spreads again widened and credit spread volatility increased. In addition, primary dealer holdings of corporate bonds due in more than one year as reported by the Federal Reserve Bank of New York declined from approximately \$218 billion as of December 31, 2007 to \$48 billion as of December 31, 2011. The trading volume of U.S. high-grade corporate bonds as reported by FINRA TRACE has remained approximately \$2.9 trillion for each of the years ended December 31, 2009, 2010 and 2011 after declining to \$2.0 trillion for the year ended December 31, 2008. After demonstrating improved conditions during 2009, European credit markets deteriorated throughout 2010 and 2011 due in part to continuing sovereign debt credit concerns.

***U.S. High-Grade Corporate Bond Market***

The U.S. corporate bond market consists of three broad categories of securities: investment-grade debt (so-called high-grade), which typically refers to debt rated BBB- or better by Standard & Poor's or Baa3 or better by Moody's Investor Service; debt rated below investment-grade (so-called high-yield), which typically refers to debt rated lower than BBB- by Standard & Poor's or Baa3 by Moody's Investor Service; and debt convertible into equity (so-called convertible debt).

The U.S. high-grade corporate bond market, which represents the largest subset of the U.S. corporate bond market, has undergone significant change over the last decade, which has been driven by a number of factors, including:

*Improved price transparency* In 2002, FINRA adopted TRACE reporting, which requires FINRA members to report secondary market transactions in certain fixed-income securities to FINRA. The list of TRACE-eligible bonds includes 30,000 unique securities, representing the majority of the daily trading volume of high-grade bonds.

*Introduction of electronic trading platforms* Electronic trading platforms act as central facilities to bring together buyers and sellers. The actions of participants on these platforms are facilitated by an electronic medium that improves some of the manual processes that might otherwise be required, such as searching for securities with specific characteristics, the coordination of multiple bilateral telephone calls or electronic communications, the sorting and analysis of competing bids or offers, and the entry of orders into the trading system after verbal or e-mail trade agreement. As a result, these platforms typically provide a lower-cost and more efficient means of enhanced distribution and trade execution than previously possible.

*Introduction of credit derivatives* Credit derivatives can provide increased flexibility and liquidity for investors and lenders to diversify their credit exposures. The notional amount of outstanding CDS transactions grew rapidly between 2002 and 2007. However, activity in the CDS market has since fallen substantially due to concern over the risks associated with these products, in particular the counterparty credit risks, and uncertainty regarding the effect of changes to the market resulting from implementation of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act), which was enacted during 2010.

*Total amount of debt issued* During 2007, the gross amount of new bonds issued was approximately \$992 billion. During 2008, high-grade corporate bond issuance declined to \$664 billion as risk aversion among corporate bond investors limited the ability of issuers across a wide range of industries, in

**Table of Contents**

**Index to Financial Statements**

particular the financial services industry, to issue new corporate bonds. The credit markets demonstrated significant improvement throughout 2009, 2010 and the early part of 2011. New issues of high-grade corporate bonds were approximately \$783 billion in 2011 and have been stable over the three years ended December 31, 2011.

***European High-Grade Corporate Bond Market***

The European high-grade corporate bond market consists of a broad range of products, issuers and currencies. We define the European high-grade corporate bond market generally to consist of bonds intended to be distributed to European investors, primarily bonds issued by European corporations, excluding bonds that are issued by a corporation domiciled in an emerging markets country and excluding most government bonds that trade in Europe. Examples include:

bonds issued by European corporations, denominated in any currency;

bonds generally denominated in Euros, U.S. dollars or Pounds Sterling, excluding bonds that are issued by a corporation domiciled in an emerging market;

bonds issued by supra-national organizations (entities that include a number of central banks or government financial authorities, such as the World Bank), agencies and governments located in Europe, generally denominated in Euros, U.S. dollars or Pounds Sterling, provided that such currency is not the currency of the country where the bond was issued; and

floating-rate notes issued by European corporations.

We believe that the European high-grade corporate bond market is impacted by many of the same factors as the U.S. high-grade corporate bond market. In addition, we believe the following factors are unique to the European high-grade corporate bond market:

*Sovereign credit issues* The global financial crisis has led to a significant rise in sovereign debt relative to GDP. Increased government deficits and debt levels along with ratings downgrades sparked fears of default among Euro zone nations, leading to increased yields on government bonds, making a more difficult trading environment for European corporate bonds.

## **Table of Contents**

### **Index to Financial Statements**

*Common liquidity pool* The larger capital pool created by the common currency and changes in the regulatory environment have facilitated bond issuance by European corporations.

#### ***Emerging Markets Bond Market***

We define the emerging markets bond market generally to include U.S. dollar, Euro or local currency denominated bonds issued by sovereign entities or corporations domiciled in a developing country. These issuers are typically located in Latin America, Asia, or Central and Eastern Europe. Examples of countries we classify as emerging markets include: Argentina, Brazil, Colombia, Mexico, Peru, the Philippines, Russia, Turkey and Venezuela.

The institutional investor base for emerging markets bonds includes many crossover investors from the high-yield and high-grade investment areas. Institutional investors have been drawn to emerging markets bonds by their high returns and high growth potential. Demand for emerging markets bonds declined significantly in late 2008 as the turmoil in the credit markets and the world-wide recession impacted the emerging markets. Emerging markets bond prices as measured by the JPMorgan emerging markets sovereign external debt and corporate bond indices fell steeply in 2008 but demonstrated significant improvement beginning in 2009. The average daily trading volume of emerging markets external debt and local markets debt as reported by the Emerging Markets Trade Association for the quarter ended September 30, 2011 was \$6.6 billion and \$20.9 billion, respectively.

#### ***Crossover and High-Yield Bond Market***

We define the high-yield bond market generally to include all debt rated lower than BBB- by Standard & Poor's or Baa3 by Moody's Investor Service. We define the crossover market to include any debt issue rated below investment grade by one agency but investment grade by the other. The total amount of high-yield corporate bonds yearly issuance as reported by SIFMA was \$136.0 billion for the year ended December 31, 2007 but declined to \$43.0 billion during 2008, primarily due to the risk aversion among corporate bond investors that severely limited the ability of high-yield issuers to raise new debt. The high-yield corporate bond markets demonstrated significant improvement beginning in 2009, with new issuance for the year ended December 31, 2011 increasing to \$221.6 billion as reported by SIFMA.

FINRA publicly disseminates real-time price information on over 5,000 high-yield corporate bond issues and certain other transactions on a delayed basis. Trades in bonds rated BB and lower are subject to immediate dissemination if the trade size is less than \$1 million, or greater than \$1 million and trades an average of once or more a day. The average daily trading volume of high-yield bonds as measured by FINRA TRACE for the year ended December 31, 2011 was approximately \$4.4 billion.

#### ***Agency Bond Market***

We define the agency bond market to include debt issued by a U.S. government-sponsored enterprise. Some prominent issuers of agency bonds are the Federal National Mortgage Association ( Fannie Mae ) and Federal Home Loan Mortgage Corporation ( Freddie Mac ). The total amount of U.S. agency bonds outstanding was approximately \$2.3 trillion as of December 31, 2011 as reported by SIFMA. The average daily trading volume of agency bonds (excluding mortgage-backed securities) as measured by FINRA TRACE for the year ended December 31, 2011 was approximately \$10.2 billion.



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**Table of Contents**

**Index to Financial Statements**

***Credit Default Swap Market***

Credit default swaps are contracts on an underlying asset that transfer risk and return from one party to another without transferring ownership of the underlying asset, allowing market participants to obtain credit protection or assume credit exposure associated with a broad range of issuers of fixed-income securities and other debt obligations. The trading volumes and notional amount outstanding in CDS transactions grew rapidly between 2002 and 2007. Following counterparty credit concerns beginning in 2007, trading activity in the CDS market declined substantially and the industry focused on netting down counterparty positions. The notional amount of CDS outstanding declined to \$32.4 trillion as of June 30, 2011 from \$62.2 trillion as of December 31, 2007. To address the counterparty credit concerns, structural changes began to occur in the CDS market that included the creation of CDS clearing houses in 2009 that serve as central counterparties for certain CDS transactions. In 2010, in response to the financial crisis, the U.S. Congress passed the Dodd-Frank Act, which is intended to bring comprehensive reform to the regulation of swaps, including CDS. Among the most significant provisions of the derivatives section of the Dodd-Frank Act are: mandatory clearing, through regulated central clearing organizations, of all swaps that the U.S. Commodity Futures Trading Commission ( CFTC ) or the U.S. Securities and Exchange Commission ( SEC ) has determined should be cleared ( clearable swaps ); and mandatory trading of clearable swaps on a board of trade designated as a contract market or a securities exchange or through a swap execution facility, or SEF (in each case, subject to certain key exceptions). Although the Dodd-Frank Act contemplated adoption and implementation of the rules to regulate the swaps market place by July 2011, this deadline was missed, and neither the CFTC nor the SEC has published a definitive schedule for rule finalization and implementation. We currently expect to establish and operate a SEF as soon as the process is established. We believe that the introduction of the clearing mandates is likely to result in more standardized contracts and greater price transparency in the CDS markets.

Although the European regulators have not yet introduced legislation concerning regulation of the European derivatives markets, the European Commission has issued three consultation papers intended to help define certain terms in the new OTC derivatives landscape. Our expectation is that the EU will, in line with the U.S., mandate central clearing of standardized CDS contracts and increase transparency through enhanced trade reporting requirements. However, it is not yet clear whether there will be any requirement in the EU to trade standardized CDS contracts on regulated exchanges or trading platforms.

***Asset-Backed Securities***

Asset-backed securities are ownership interests in a pool of receivables sold by originators into a special purpose vehicle. These securities are typically secured by pools of homogeneous assets with relatively predictable cash flows. The assets are legally separated from the seller, which limits the investor's exposure to the credit quality of the seller. In 2011, approximately \$140.0 billion in U.S. consumer-based asset-backed securities (defined as including auto, credit cards, equipment and student loans) and non-agency residential and commercial mortgage-backed securities were issued. New issuance declined from over \$1.0 trillion in 2007 as the asset-backed securities market was significantly impacted by the credit and housing market crisis. The total amount of consumer-based asset-backed and non-agency residential and commercial mortgage-backed securities outstanding at December 31, 2011 was \$2.5 trillion, as reported by SIFMA.

***Preferred Securities***

Preferred securities are equity ownership securities that carry additional rights above and beyond those conferred by common shares. The additional rights typically include preference in dividends and seniority in assets vis-à-vis common stock in the event of liquidation. Other typical features include convertibility into common stock, callable at the option of the corporation and no voting rights. We estimate that the average daily trading volume of preferred securities was approximately \$519 million in 2011.

**Table of Contents**

**Index to Financial Statements**

**Our Competitive Strengths**

Our electronic trading platform provides solutions to some of the shortcomings of traditional bond trading methods. The benefits of our solution are demonstrable throughout the trading cycle:

*Pre-trade* gathering real-time and historical pricing information, identifying interested buyers and sellers in a particular security, and obtaining research and analysis;

*Trade* single and multiple security trade execution; and

*Post-trade* trade detail matching, account allocation and automated audit trail.

We believe that we are well positioned to strengthen our market position in electronic trading in our existing products and to extend our presence into new products and services by capitalizing on our competitive strengths, including:

***Significant Trading Volumes with Participation by Leading Broker-Dealers and Institutional Investors***

Our electronic trading platform provides access to the liquidity provided through the participation on our platform of 87 broker-dealer market making clients, including substantially all of the leading broker-dealers in global fixed-income trading, and over 850 active institutional investor firms. We believe these broker-dealers represent the principal source of secondary market liquidity for U.S. high-grade corporate bonds, European high-grade corporate bonds, emerging markets bonds and the other markets in which we operate. Our broker-dealer clients are motivated to continue to utilize our platform due to the presence on the platform of our large network of institutional investor clients. We believe that our net addition of 38 new broker-dealer market making clients since the third quarter of 2008 has improved and will continue to improve the liquidity on our electronic trading platform for institutional investors, further motivating them to use our platform. The number of our active institutional investor clients for the past five years has been as follows:

**Table of Contents**

**Index to Financial Statements**

Our total trading volume increased from \$359.9 billion in 2007 to \$525.0 billion in 2011. We believe that our trading volumes in 2008 and 2009 reflect the turmoil and resultant lack of liquidity in the credit markets beginning in the third quarter of 2007. Our total trading volume over the past five years is indicated below:

Our volume in U.S. high-grade corporate bonds was approximately 9.4% of total U.S. high-grade corporate bond volume, excluding convertible bonds, in 2007 as reported by FINRA TRACE, which includes inter-dealer and retail trading as well as trading between institutional investors and broker-dealers. However, following the credit market turmoil, our estimated market share declined to approximately 6.2% for the full year 2009. Our volume in U.S. high-grade floating rate note bonds declined from \$46.0 billion in 2007 to \$6.6 billion in 2009. The U.S. credit market conditions improved significantly beginning in 2009. Our estimated share of total U.S. high-grade corporate bond volume for 2011 was approximately 11.1%. Our estimated market share from 2007 to 2011 is shown in the chart below:

## Table of Contents

### Index to Financial Statements

#### *Execution Benefits to Clients*

##### *Benefits to Institutional Investor Clients*

We believe we provide numerous benefits to our institutional investor clients over traditional fixed-income trading methods, including:

*Competitive Prices.* By enabling institutional investors to simultaneously request bids or offers from our broker-dealer clients, we believe our electronic trading platform creates an environment that motivates our broker-dealer clients to provide competitive prices and gives institutional investors confidence that they are obtaining a competitive price. For typical MarketAxess multi-dealer corporate bond inquiries, the range of competitive spread-to-Treasury responses is, on average, approximately 10 basis points (a basis point is 1/100 of 1% in yield). As an example of the potential cost savings to institutional investors, a one basis point savings on a \$1 million face amount trade of a bond with 10 years to maturity translates to aggregate savings of approximately \$800.00.

*Transparent Pricing on a Range of Securities.* The commingled multi-dealer inventory of bonds posted by our broker-dealer clients on our platform consists of a daily average of more than \$60 billion in indicative bids and offers. Subject to applicable regulatory requirements, institutional investors can search bonds in inventory based on any combination of issuer, issue, rating, maturity, spread-to-Treasury, size and dealer providing the listing, in a fraction of the time it takes to do so manually. Institutional investor clients can also request executable bids and offers on our electronic trading platform on any debt security in a database of U.S. and European corporate bonds, although there can be no assurance as to the number of broker-dealers who will choose to provide an executable price. Our platform transmits bid and offer requests in real-time to broker-dealer clients, who may respond with executable prices within a time period specified by the institutional investor. Institutional investors may also elect to display live requests for bids or offers anonymously to all other users of our electronic trading platform, in order to create broader visibility of their inquiry among market participants and increase the likelihood that the request results in a trade. We believe that broader participation in client inquiries will result in more trade matches and lower transaction costs.

*Improved Cost Efficiency.* We believe that we provide improved efficiency by reducing the time and labor required to conduct broad product and price discovery. Single-security and multi-security (bid or offer lists) inquiries can be efficiently conducted with multiple broker-dealers. In addition, our Corporate BondTicker™ eliminates the need for manually-intensive phone calls or e-mail communication to gather, sort and analyze information concerning historical transaction prices.

##### *Benefits to Broker-Dealer Clients*

We also provide substantial benefits to our broker-dealer clients over traditional fixed-income trading methods, including:

*Greater Sales Efficiency.* We offer our broker-dealer clients broad connectivity with their institutional investor clients. Through this connectivity, our broker-dealer clients are able to efficiently display their indications of interest to buy and sell various securities. We also enable broker-dealers to broaden their distribution by participating in transactions to which they otherwise may not have had access. In addition, the ability to post prices and electronically execute on straightforward trades enables bond sales professionals at broker-dealer firms to focus their efforts on more profitable activities, such as higher value-added trades and more complex transactions.

*More Efficient Inventory Management.* The posting of inventory to, and the ability to respond to inquiries from, a broad pool of institutional investors, creates an increased opportunity for broker-dealers to identify demand for their inventory, particularly in less liquid securities. As a result, we believe they can achieve enhanced bond inventory turnover, which may limit credit exposure.

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**Table of Contents**

**Index to Financial Statements**

*Benefits to Both Institutional Investor and Broker-Dealer Clients*

We offer additional benefits over traditional fixed-income trading methods that are shared by both institutional investor and broker-dealer clients, including:

*Greater Trading Accuracy.* Our electronic trading platform includes verification mechanisms at various stages of the execution process which result in greater accuracy in the processing, confirming and clearing of trades between institutional investor and broker-dealer clients. These verification mechanisms are designed to ensure that our broker-dealer and institutional investor clients are sending accurate trade messages by providing multiple opportunities to verify they are trading the correct bond, at the agreed-upon price and size. Our platform assists our institutional investor clients in automating the transmittal of order tickets from the portfolio manager to the trader, and from the trader to back-office personnel. This automation provides more timely execution and a reduction in the likelihood of errors that can result from manual entry of information into different systems.

*Efficient Risk Monitoring and Compliance.* Institutional investors and their regulators are increasingly focused on ensuring that best execution is achieved for fixed-income trades. Our electronic trading platform offers both institutional investors and broker-dealers an automated audit trail for each stage in the trading cycle. This enables compliance personnel to review information relating to trades more easily and with greater reliability. Trade information including time, price and spread-to-Treasury is stored securely and automatically on our electronic trading platform. This data represents a valuable source of information for our clients' compliance personnel. Importantly, we believe the automated audit trail, together with the competitive pricing that is a feature of our electronic trading platform, gives fiduciaries the ability to demonstrate that they have achieved best execution on behalf of their clients.

*Other Service Offerings*

In addition to services directly related to the execution of trades, we offer our clients several other services, including:

*Information Services.* The information and analytical tools we provide to our clients help them make investment and trading decisions. Our Corporate BondTicker™ provides access to real-time and historical price, yield and MarketAxess estimated spread-to-Treasuries for publicly disseminated FINRA TRACE-eligible bonds. Corporate BondTicker™ combines publicly-available FINRA TRACE data with the prices for trades executed on our U.S. high-grade electronic trading platform, integrating the two data sources and providing real-time FINRA TRACE data with associated analytical tools that are not otherwise available. Our electronic trading platform allows institutional investors to compile, sort and use information to discover investment opportunities that might have been difficult or impossible to identify using a manual information-gathering process or other electronic services.

We offer a comprehensive set of reports designed to review and monitor credit trading activity for institutional investor clients. These reports utilize extensive FINRA TRACE information and are accessible by means of a flexible interface to run and save reports in a variety of formats for both compliance and management reporting. For example, the best execution report provides a view of the savings generated by trading on our electronic trading platform and offers a quantitative measure of the value of price discovery from multiple dealers. The report allows clients to monitor performance against their own best execution policy. Our compliance product provides a printed history of each inquiry submitted through the MarketAxess trading platform.

*Straight-Through Processing.* Straight-through processing ( STP ) refers to the integration of systems and processes to automate the trade process from end-to-end trade execution, confirmation and settlement without the need for manual intervention. Our electronic trading platform provides broker-dealers and institutional investors with the ability to automate portions of their transaction processing requirements, improving accuracy and efficiency. Through electronic messaging, institutional investors can submit inquiries to, and receive electronic notices of execution from us, in industry standard protocols, complete with all relevant trade details. Institutional investors can download trade messages, allocate trades to sub-accounts on whose behalf the trades were made and send the allocations to broker-dealers for confirmation.

## **Table of Contents**

### **Index to Financial Statements**

*Technology Products and Services.* We provide integration, testing and management solutions for FIX-related products and services designed to optimize the electronic trading of fixed-income, equity and other exchange-based products. We also provide technology consulting and customized development services to our clients that leverage our trading technology expertise and our existing technology solutions. In addition, we provide gateway adapters to connect order management and trading systems to fixed-income trading venues.

#### ***Robust, Scalable Technology***

We have developed proprietary technology that is highly secure, fault-tolerant and provides adequate capacity for our current operations, as well as for substantial growth. Our highly scalable systems are designed to accommodate additional volume, products and clients with relatively little modification and low incremental costs.

#### ***Proven Innovator with an Experienced Management Team***

Since our inception, we have been an innovator in the fixed-income securities markets. The members of our management team, average more than 20 years' experience in the securities industry. We have consistently sought to benefit participants in the markets we serve by attempting to replicate the essential features of fixed-income trading, including the existing relationships between broker-dealers and their institutional investor clients, while applying technology to eliminate weaknesses in traditional trading methods. In 2011, MarketAxess was recognized as Trading Venue of the year by Funds Europe at their annual awards. Most recently, MarketAxess was named Best in Trading Technology by Asia Asset Management in their annual Best of the Best awards, and Best OTC Derivatives Platform in the Wall Street Letter Institutional Trading Awards.

Some of the innovations we have introduced to electronic trading include:

the first multi-dealer disclosed trading platform for U.S. high-grade corporate bonds;

the first electronic Treasury benchmarking for U.S. high-grade corporate bond trades;

Corporate BondTicker™, our information services product, combining FINRA TRACE bond data with MarketAxess data and analytical tools;

bid and offer list technology for corporate bond trading, enabling institutional investors to request executable prices for multiple securities simultaneously;

the first disclosed client to multi-dealer trading platform for CDS indices; and

public Market Lists for corporate bonds, giving institutional investors the ability to display their bid and offer lists anonymously to the entire MarketAxess trading community.

#### **Our Strategy**

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

#### ***Enhance the Liquidity of Securities Traded on Our Platform and Broaden Our Client Base in Our Existing Markets***

## Edgar Filing: MARKETAXESS HOLDINGS INC - Form 10-K

We intend to further enhance the liquidity of securities traded on our leading electronic, multi-dealer to client fixed-income platform. Our ability to innovate and efficiently add new functionality and product offerings to the MarketAxess platform will help us deepen our market share with our existing clients, as well as expand our

**Table of Contents**

**Index to Financial Statements**

client base, which we believe will in turn lead to even further increases in the liquidity of the securities provided by our broker-dealer clients and available on our platform. We will seek to increase the amount of cross-regional activity by our institutional investor clients on our electronic trading platform, subject to regulatory requirements.

***Leverage our Existing Technology and Client Relationships to Expand into New Sectors of the Fixed-Income Securities Market***

We intend 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 and deliver fixed-income securities-related technical services and products. Due in part to our highly scalable systems, we believe we will be able to enter new markets efficiently. As an example, we have developed technology and trading protocols to trade CDS in anticipation of implementation of the Dodd-Frank Act and, subject to such rulemaking, we currently expect to establish and operate a swap execution facility and/or a security-based swap execution facility.

***Leverage our Existing Technology and Client Relationships to Expand into New Client Segments***

We intend to leverage our technology and client relationships to deploy our electronic trading platform into new client segments. As an example, we have expanded the base of broker-dealers on our platform to include both regional and diversity dealers.

***Continue to Strengthen and Expand our Trade-Related Service Offerings***

We plan to continue building our existing service offerings so that our electronic trading platform is more fully integrated into the workflow of our broker-dealer and institutional investor clients. We also plan to continue to add functionality to enhance the ability of our clients to achieve a fully automated, end-to-end straight-through processing solution (automation from trade initiation to settlement). We are continually considering the introduction of new trading techniques.

***Expand our Data and Information Services Offerings***

We regularly add new content and analytical capabilities to Corporate BondTicker™ in order to improve the value of the information we provide to our clients. We intend to continue to widen the user base of our data products and to continue adding new content and analytical capabilities. As the use of our electronic trading platform continues to grow, we believe that the amount and value of our proprietary trading data will also increase, further enhancing the value of our information services offerings to our clients.

***Expand our Technology Services Offerings***

We intend to leverage our technology expertise and our client relationships to provide technology solutions to our clients that enhance their electronic trading capabilities and facilitate the electronic communication of order information with their trading counterparties.

***Pursue Select Acquisitions and Strategic Alliances***

We plan to continue to increase and supplement our internal growth by entering into strategic alliances, or acquiring businesses or technologies, that will enable us to enter new markets, provide new products or services, or otherwise enhance the value of our platform to our clients.



## **Table of Contents**

### **Index to Financial Statements**

#### **MarketAxess Electronic Trading Platform**

##### ***Key Trading Functionalities***

The key trading functionalities are detailed below.

##### ***Single Inquiry Trading Functionality***

We currently offer institutional investors the ability to request bids or offers in a single inquiry from an unlimited number of our broker-dealer clients for U.S. high-grade corporate bonds, from up to six of our broker-dealer clients for European high-grade corporate bonds and from up to 12 of our broker-dealer clients in emerging markets bonds. Institutional investors can obtain bids or offers on any security posted in inventory or included in the database available on our platform.

##### ***ASAP and Holding Bin Trading Functionalities***

We provide both ASAP ( as soon as possible ) and Holding Bin trading protocols. In the Holding Bin trading protocol, institutional investor clients set the time when they would like all of the broker-dealers' prices or spreads returned to them, in order to have the ability to see all executable prices available at the same time. In the ASAP trading protocol, institutional investor clients see each broker-dealer's price or spread as soon as it is entered by the broker-dealer.

##### ***List Trading Functionality***

We currently offer institutional investors the ability to request bids or offers on a list of up to 40 bonds depending on the market. This facilitates efficient trading for institutional investors such as investment advisors, mutual funds and hedge funds. Institutional investors are able to have multiple lists executable throughout the trading day, enabling them to manage their daily cash flows, portfolio duration, and credit and sector exposure.

##### ***Swap Trading Functionality***

We currently offer institutional investors the ability to request an offer to purchase one bond and a bid to sell another bond, in a manner such that the two trades will be executed simultaneously, with payment based on the price or yield differential of the securities.

##### ***Market Lists***

We offer institutional investors the ability to display live requests for bids and offers anonymously to the entire MarketAxess trading community through our Market List functionality, thereby creating broader visibility of their inquiry among market participants and increasing the likelihood that the request results in a trade.

##### ***Click-to-Trade***

We have enhanced our trading system to provide pre-trade price discovery and fast-track execution for European bonds. Click-to-trade functionality streams attributable pricing in European credit and rates instruments, submitted by our pool of European dealers. Investor clients are able to initiate an inquiry with a single click on the stacks of distinctly displayed dealer bids and offers. Click-to-trade is offered alongside our existing Request for Quote product. Although currently limited to European credit and rate instruments, click-to-trade functionality may be applied to trading of other market sectors.

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**Table of Contents**

**Index to Financial Statements**

***Markets***

***U.S. High-Grade Corporate Bonds***

Our U.S. high-grade corporate bond business consists of U.S. dollar-denominated investment-grade debt issued by corporations for distribution in the U.S. Both domestic and foreign institutional investors have access to U.S. high-grade corporate bond trading on our electronic trading platform. We use the terms high-grade debt and investment-grade debt interchangeably in this annual report on Form 10-K. Our 2011 trading volume in the U.S. high-grade corporate bond market was \$323.6 billion.

In the U.S. high-grade corporate bond market, 62 broker-dealers utilize our platform, including each of the top 20 broker-dealers as ranked by 2011 U.S. corporate bonds new-issue underwriting volume. Our broker-dealer clients accounted for approximately 97% of the underwriting of newly-issued U.S. corporate bonds in 2011.

We offer our institutional investor clients access to a broad inventory of U.S. high-grade corporate bonds, which is provided and updated daily by our broker-dealer clients. Our electronic trading platform allows institutional investors to view bids and offers from one or more of our broker-dealer clients while permitting each party to know the identity of its counter-party throughout the trading process. Our disclosed inquiry trading functionality combines the strength of existing offline client/dealer relationships with the efficiency and transparency of an electronic trading platform. This enables institutional investors to instantly direct trade inquiries and negotiations to their traditional broker-dealer or to any of the substantial majority of the world's leading broker-dealers who provide liquidity in these securities. Through our Market List functionality, we also offer institutional investors the ability to display their live requests for bid and offer lists anonymously to the entire MarketAxess trading community as a means of creating broader visibility of their inquiry among market participants and increasing the likelihood that the request results in a trade.

Institutional investors have access to the commingled inventory of our broker-dealer clients, representing indicative bids and offers. Each line item of inventory represents an indicative bid and/or offer on a particular bond issue by a particular broker-dealer client. Institutional investor clients are not restricted to trading only the bonds posted as inventory, although many of the trades conducted on our platform are made from the posted inventory. To transact in a specific bond that does not appear in inventory, institutional investors can easily search our database and submit an online inquiry to their chosen broker-dealers, who can respond with live, executable prices. While, on average, institutional investor clients receive several bids or offers from broker-dealers in response to trade inquiries, some inquiries may not receive any bids or offers.

***Eurobonds***

MarketAxess Europe Limited, our wholly-owned U.K. subsidiary, offers European secondary trading functionality in U.S. dollar- and Euro-denominated European corporate bonds to our broker-dealer and institutional investor clients. We also offer our clients the ability to trade in other European high-grade corporate bonds, including bonds issued in Pounds Sterling, floating rate notes, European government bonds and bonds denominated in non-core currencies. We offered the first platform in Europe with a multi-dealer disclosed counterparty trading capability for corporate bonds. In 2009, MarketAxess Europe Limited received FSA regulatory approval to trade on a riskless principal basis. In 2010, we launched a click-to-trade protocol for the European market.

In the Eurobond credit market, defined as including European high-grade, high yield and government bonds, 25 broker-dealers utilize our platform, including 16 of the top 20 broker-dealers as ranked by 2011 European corporate new-issue underwriting volume. On a typical day, institutional investors on our European corporate bond trading platform have access to over 100,000 lines of streaming pre-trade price indications on over 10,000 individual instruments covered on both the bid and offer side of the market. In a single inquiry, institutional investors can request bids or offers from up to six of the broker-dealers who participate on the European platform. While many of the trades conducted on our platform are made from the posted inventory, institutional

## **Table of Contents**

### **Index to Financial Statements**

investor clients are not restricted to trading only the bonds posted as inventory. To transact in a specific bond that does not appear in inventory, institutional investors can easily search our database and submit an online inquiry to their chosen broker-dealers, who can respond with live, executable prices. While, on average, institutional investor clients receive several bids or offers from broker-dealers in response to trade inquiries, some inquiries may not receive any bids or offers. Our 2011 trading volume in the Eurobond market was \$36.9 billion.

#### *Emerging Markets Bonds*

Fifty-four of our U.S. broker-dealer clients use our platform to trade emerging markets bonds. Four hundred fourteen active institutional investor clients utilized our electronic trading platform to trade emerging markets bonds in 2011. These institutional investor clients are predominantly located in the U.S. and Europe. The emerging markets countries whose bonds were most frequently traded on our platform in 2011 were Argentina, Brazil, Mexico, Russia and Venezuela.

We also allow our institutional investor clients to transact Euroclear-eligible local currency denominated bonds issued by sovereign entities or corporations in countries that include Argentina, Brazil and Mexico.

#### *Crossover and High-Yield Bonds*

Sixty-two of our U.S. broker-dealer clients use our platform to trade crossover and high-yield bonds. Trading in crossover and high-yield bonds uses many of the same features available in our U.S. high-grade corporate bond offering.

#### *Agency Bonds*

Forty-three of our U.S. broker-dealer clients use our platform to trade agency bonds. Trading in agency bonds uses many of the same features available in our U.S. high-grade corporate bond offering.

#### *Credit Default Swaps*

We offer trading on our platform for CDS indices and single-names in both the U.S. and Europe through our traditional RFQ protocol. Nine of our broker-dealer clients are providing streaming, executable CDS index prices. Additionally, we incorporated the request-for-market protocol and the streaming markets/click-to-trade protocol into an updated single-screen user interface, giving clients full flexibility in their means of execution. With these features, we believe that we have developed much of the core technology needed to meet the anticipated regulatory requirements under the Dodd-Frank Act.

#### *Asset-Backed Securities*

In 2011, we introduced trading in consumer-based asset-backed securities and non-agency residential and commercial mortgage-backed securities. Eight of our U.S. broker-dealer clients use our platform to trade asset-backed securities. Trading in asset-backed securities uses many of the same features available in our U.S. high-grade corporate bond offering.

#### *Preferred Securities*

In November 2010, we introduced trading in preferred securities. Fourteen of our U.S. broker-dealer clients use our platform to trade preferred securities. Trading in preferred securities uses many of the same features available in our U.S. high-grade corporate bond offering.

**Table of Contents**

**Index to Financial Statements**

***Information and Analytical Tools***

*Corporate BondTicker™*

Corporate BondTicker™ provides real-time FINRA TRACE data and enhances it with MarketAxess trade data and analytical tools to provide professional market participants with a comprehensive set of corporate bond price information. The data include trade time and sales information, including execution prices, as well as MarketAxess-estimated spread-to-Treasuries, for trades disseminated by the FINRA TRACE system. The data also include actual execution prices and spread-to-Treasury levels for U.S. high-grade corporate bond trades executed on the MarketAxess platform.

Corporate BondTicker™ allows institutional investors to search for and sort bonds based upon specific criteria, such as volume, time/date of transaction, spread change, issuer or security. This search function allows institutional investors to compile information relating to potential securities trades in a fraction of the time that it takes to manually compile this information from disparate sources or other electronic databases, including direct FINRA TRACE feeds.

TRACE facilitates the mandatory reporting of over-the-counter secondary market transactions in eligible fixed-income securities. All broker-dealers that are FINRA member firms have an obligation to report transactions in corporate bonds to TRACE under a set of rules approved by the SEC. FINRA then publicly disseminates a portion of this data, which is available free of charge on a delayed basis through the FINRA website or available immediately for a set fee.

Corporate BondTicker™ is integrated directly into the MarketAxess electronic trading platform and can be seamlessly accessed, either when viewing securities inventory or when launching an inquiry. Corporate BondTicker™ is also available through the Internet for non-trading professional market participants, including, among others, research analysts and rating agencies, who can log in and access the information via an easy-to-use browser-based interface.

We provide Corporate BondTicker™ as an ancillary service to our trading clients and also to other industry participants. We derive revenues from our Corporate BondTicker™ service by charging for seat licenses per user at our broker-dealer and institutional investor clients, through distribution agreements with other information service providers and through bulk data sales to third parties. Seat license fees are waived for clients that transact a sufficient volume of trades through MarketAxess.

Additional analytical capabilities of our information services offerings aim to provide clients with more information regarding bond prices and market activity, including asset swap spreads, turnover percentage and liquidity ratios. These statistics measure a security's trading activity relative to its amount outstanding and relative to the overall market, respectively, providing an additional perspective on relative liquidity. In addition, we provide pricing measures to help institutional investors better assess the relative value of a corporate bond, providing more consistent relative pricing information for institutional investors, such as offering spread data versus the interest rate swap curve and versus the U.S. Treasury curve. Users are also able to download a variety of MarketAxess-compiled trade reports containing a comprehensive review of trading activity. Corporate BondTicker™ is currently the source of corporate bond trading information for *The Wall Street Journal*.

We also offer a comprehensive set of reports designed to review and monitor credit trading activity for institutional investor clients. It utilizes extensive FINRA TRACE information and has a flexible interface to run and save reports in a variety of formats for both compliance and management reporting. For example, the best execution report provides a view of the savings generated by trading on our electronic trading platform and offers a quantitative measure of the value of price discovery from multiple dealers. The report allows clients to monitor performance against their own best execution policy. Our compliance product provides a printed history of each inquiry submitted through the MarketAxess trading platform.

## **Table of Contents**

### **Index to Financial Statements**

#### *My Portfolio*

Institutional investors are able to upload their corporate bond portfolio to our electronic trading platform utilizing the My Portfolio trading feature. Institutional investors who utilize My Portfolio benefit from the ability to automatically match inventory on our platform to bonds held in their portfolio, allowing them to more efficiently launch an inquiry and transact in these securities. Users of this feature can also directly access Corporate BondTicker™ to obtain the trading history of the securities in their portfolio.

#### *Straight-Through Processing*

Straight-through processing refers to the integration of systems and processes to automate the trade process from end-to-end trade execution, confirmation and settlement without the need for manual intervention. There are two elements of straight-through processing: internal straight-through processing and external straight-through processing. Internal straight-through processing relates to the trade and settlement processes that are internal to an industry participant. For example, in the case of an institutional investor, this includes authorization of orders, placement of orders with broker-dealers, receipt of execution details and allocation of trades. External straight-through processing refers to connecting seamlessly to all external counterparts in the trading and settlement process.

Automation by way of straight-through processing improves efficiency throughout the trade cycle. We provide broker-dealers and institutional investors with a range of tools that facilitate straight-through processing, including order upload, easy-to-use online allocation tools and pre- and post-trade messaging features that enable institutional investors to communicate electronically between front- and back-office systems, thereby integrating the order, portfolio management and accounting systems of our broker-dealer and institutional investor clients in real time. Our straight-through processing tools can be customized to meet specific needs of clients. We continue to build industry partnerships to assist our clients in creating connectivity throughout the trade cycle. Through these partnerships, we are increasingly providing solutions that can quickly be deployed within our clients trading operations.

Usage of our straight-through processing tools increased significantly during the last several years. The number of investor client STP connections increased from 180 as of December 31, 2008 to 291 as of December 31, 2011.

#### *Dealer API*

We offer Application Programming Interface ( API ) services to our broker-dealer clients for pre-trade, trade negotiation and post-trade services. This allows for straight-through processing, which improves efficiency and reduces errors in processing.

#### *Technology Services*

Through our Greenline Financial Technologies, Inc. ( Greenline ) subsidiary, we provide integration, testing and management solutions for FIX-related products and services. The FIX protocol is a messaging standard developed specifically for the real-time electronic exchange of securities transaction information. Greenline s CertiFIX product enables firms to provide a reliable FIX certification environment for their trading counterparties. The VeriFIX product is a testing suite that allows firms to thoroughly test counterparty FIX interfaces, protocol formats and supported messages. Greenline s MagniFIX product allows firms to monitor their enterprise-wide FIX installations on a real-time basis. In addition, Greenline provides strategic consulting and custom development for its clients.

We also provide technology consulting and customized development services to our clients that leverage our trading technology expertise and our existing technology solutions. Fees for such services are based on the complexity and extent of the services provided. In addition, we provide gateway adapters to connect order management and trading systems to fixed-income trading venues.

## Table of Contents

### Index to Financial Statements

#### **Sales and Marketing**

We promote our products and services using a variety of direct and indirect sales and marketing strategies. Our sales force is responsible for client acquisition activity and for increasing use of our platform by our existing clients. Their goal is to train and support existing and new clients on how to use the system and to educate them as to the benefits of utilizing an electronic fixed-income trading platform. We employ various strategies, including advertising, direct marketing, promotional mailings and participation in industry conferences, to increase awareness of our brand and our electronic trading platform. For example, we have worked with *The Wall Street Journal* to establish Corporate BondTicker™ as the source of information for its daily corporate bond and high-yield tables.

#### **Competition**

The electronic trading industry is highly competitive and we expect competition to intensify in the future. We face five main areas of competition:

*Telephone* We compete with bond trading business conducted over the telephone between broker-dealers and their institutional investor clients. Institutional investors have historically purchased fixed-income securities by telephoning bond sales professionals at one or more broker-dealers and inquiring about the price and availability of individual bonds. This remains the manner in which the majority of corporate bonds are still traded between institutional investors and broker-dealers.

*E-mail* We compete with bond trading business conducted via e-mail between broker-dealers and their institutional investor clients. E-mail provides an efficient means of initiating product and price discovery with a large universe of potential trading partners.

*Other electronic trading platforms* There are numerous other electronic trading platforms currently in existence. Among others, Thomson TradeWeb and Bloomberg operate multi-dealer to institutional investor trading platforms for both fixed income securities and derivatives. The New York Stock Exchange also offers exchange-style trading for corporate bonds. In addition, some broker-dealers operate proprietary electronic trading systems that enable institutional investors to trade directly with a broker-dealer over an electronic medium. Additionally, as we expand our business into new products, we will likely come into more direct competition with other electronic trading platforms or firms offering traditional services.

*Market data and information vendors* Several large market data and information providers currently have a data and analytics relationship with virtually every institutional firm. Some of these entities, including Bloomberg, currently offer varying forms of electronic trading of fixed-income securities, mostly on a single-dealer basis. Some of these entities have announced their intention to expand their electronic trading platforms or to develop new platforms. These entities are currently direct competitors to our information services business and already are or may in the future become direct competitors to our electronic trading platform.

*Technology vendors* We compete with numerous providers of FIX message management tools and connectivity solutions. The market for our technology products and services is fragmented and includes FIX engine providers, testing, monitoring, certification and professional services firms and in-house technology and development groups at virtually every institutional firm. 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 trading platforms that compete or will compete with us. Furthermore, our broker-dealer clients have made, and may in the future make investments in or enter into agreements with other businesses that directly or indirectly compete with us.

In general, we compete on the basis of a number of key factors, including:

broad network of broker-dealer and institutional investor clients using our electronic trading platform;

liquidity provided by the participating broker-dealers;

## **Table of Contents**

### **Index to Financial Statements**

magnitude and frequency of price improvement;

enhancing the quality and speed of execution;

compliance benefits;

total transaction costs;

technology capabilities, including the reliability and ease of use of our electronic trading platform; and

range of products and services offered.

We believe that our ability to grow volumes and revenues will largely depend on our performance with respect to these factors.

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

Our broker-dealer clients have invested in building API s with us for inventory contributions, electronic trading, government bond benchmark pricing and post-trade messaging. We believe that we have successfully built deep roots with our broker-dealer clients, increasing our level of service to them while at the same time increasing their commitment to our services.

Furthermore, 291 of our institutional investor clients have built interfaces to enable them to communicate electronically between our platform and their order, portfolio management and accounting systems. We believe that this increases the reliance of these institutional investor clients on our services and creates significant competitive barriers to entry.

### **Technology**

The design and quality of our technology products are critical to our growth and our ability to execute our business strategy. Our electronic trading platform has been designed with secure, scalable client-server architecture that makes broad use of distributed computing to achieve speed, reliability and fault tolerance. The platform is built on industry-standard technologies and has been designed to handle many multiples of our current trading volume.

All critical server-side components, primarily our networks, application servers and databases, have backup equipment running in the event that the main equipment fails. This offers fully redundant system capacity to maximize uptime and minimize the potential for loss of transaction data in the event of an internal failure. We also seek to minimize the impact of external failures by automatically recovering connections in the event of a communications failure. The majority of our broker-dealer clients have redundant dedicated high-speed communication paths to our network in order to provide fast data transfer. Our security measures include industry-standard communications encryption.

We have designed our application with an easy-to-use, Windows-based interface. Our clients are able to access our electronic trading platform through a secure, single sign-on. Clients are also able to execute transactions over our platform directly from their order management systems. We provide users an automatic software update feature that does not require manual intervention.

### **Intellectual Property**

We rely upon a combination of copyright, patent, trade secret and trademark laws, written agreements and common law to protect our proprietary technology, processes and other intellectual property. Our software code, elements of our electronic trading platform, website and other proprietary materials are protected by copyright





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**Table of Contents**

**Index to Financial Statements**

laws. We received five patents in 2009 covering our most significant trading protocols and other aspects of our trading system technology, we received two additional patents in 2010 and other patents are pending.

The written agreements upon which we rely to protect our proprietary technology, processes and intellectual property include agreements designed to protect our trade secrets. Examples of these written agreements include third party nondisclosure agreements, employee nondisclosure and inventions assignment agreements, and agreements with customers, contractors and strategic partners. Other written agreements upon which we rely to protect our proprietary technology, processes and intellectual property take many forms and contain provisions related to patent, copyright, trademark and trade secret rights.

We have obtained U.S. federal registration of the MarketAxess® name and logo, and the same mark and logo have been registered in several foreign jurisdictions. We have pending registrations for the MarketAxess® name and logo in several other foreign jurisdictions. In addition, we have obtained U.S. federal registration for the marks AutoSpotting®, BondLink®, FrontPage®, Actives®, DealerAxess® and associated designs and have a number of other registered trademarks, service marks and trademark applications. Corporate BondTicker™ is a trademark we use, but it has not been registered.

In addition to our efforts to register our intellectual property, we believe that factors such as the technological and creative skills of our personnel, new product and service developments, frequent enhancements and reliability with respect to our services are essential to establishing and maintaining a technology and market leadership position.

**Government Regulation**

The securities industry and financial markets in the U.S. and elsewhere are subject to extensive regulation. As a matter of public policy, regulatory bodies in the U.S. and the rest of the world are charged with safeguarding the integrity of the securities and other financial markets and with protecting the interests of investors participating in those markets. Our active broker-dealer subsidiaries fall within the scope of their regulations.

***Regulation of the U.S. Securities Industry and Broker-Dealers***

In the U.S., the SEC is the governmental agency responsible for the administration of the federal securities laws. One of our U.S. subsidiaries, MarketAxess Corporation, is registered with the SEC as a broker-dealer. It is also a member of FINRA, a self-regulatory organization to which most broker-dealers belong. In addition, MarketAxess Corporation is a member of the Securities Investor Protection Corporation, which provides certain protection for clients' accounts in the event of a liquidation of a broker-dealer to the extent any such accounts are held by the broker-dealer.

Additionally, MarketAxess Corporation is registered with certain states and the District of Columbia as a broker-dealer. The individual states and the District of Columbia are responsible for the administration of their respective "blue sky" laws, rules and regulations.

In July, 2010, the Dodd-Frank Act was signed into law, marking the greatest change to financial supervision since the 1930's. U.S. financial regulators are in the midst of an intense period of rulemaking that is required to implement the provisions of the Dodd-Frank Act, and market participants will need to make strategic decisions in an environment of regulatory uncertainty. Among the most significant aspects of the derivatives section of the Dodd-Frank Act are mandatory clearing of certain derivatives transactions ( swaps ) through regulated central clearing organizations and mandatory trading of those swaps through either regulated exchanges or swap execution facilities, in each case, subject to certain key exceptions. As with other parts of the Dodd-Frank Act, many of the details of the new regulatory regime relating to swaps are left to the regulators to determine through rulemaking. Subject to such rulemaking, we currently expect to establish and operate a swap execution facility and/or a security-based swap execution facility.

## **Table of Contents**

### **Index to Financial Statements**

#### ***Regulation of the Non-U.S. Securities Industries and Investment Service Providers***

The securities industry and financial markets in the U.K., the European Union and elsewhere are subject to extensive regulation. MarketAxess Europe Limited may fall within the scope of those regulations depending on the extent to which it is characterized as providing a regulated investment service.

Our principal regulator in the U.K. is the Financial Services Authority ( FSA ). Our subsidiary, MarketAxess Europe Limited, is registered as a Multilateral Trading Facility ( MTF ) dealer with the FSA.

The securities industry in the member states of the European Union is regulated by agencies in each member state. European Union measures provide for the mutual recognition of regulatory agencies and of prudential supervision making possible the grant of a single authorization for providers of investment services, which, in general, is valid throughout the European Union. As an FSA-approved MTF, MarketAxess Europe Limited receives the benefit of this authorization.

Similar to the U.S., regulatory bodies in Europe and elsewhere are developing new rules for derivatives trading. For example, the European Commission has issued three consultation papers intended to help define certain terms in the new OTC derivatives landscape and, in 2010, proposed legislation that mandates, among other things, central clearing of standardized CDS contracts. Although the European regulators have not yet adopted such legislation, our expectation is that the EU will, in line with the U.S., require central clearing of standardized CDS contracts and increase transparency through enhanced trade reporting requirements. However, it is not yet clear whether there will be any requirement in the EU to trade standardized CDS contracts on regulated exchanges or trading platforms.

Our Canadian subsidiary, MarketAxess Canada Limited, 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.

#### **Employees**

As of December 31, 2011, we had 232 employees, 187 of whom were based in the U.S. and 45 of whom were based outside of the U.S., principally in the U.K. None of our employees is represented by a labor union. We consider our relationships with our employees to be good and have not experienced any interruptions of operations due to labor disagreements.

#### **Company Information**

Our Internet website address is [www.marketaxess.com](http://www.marketaxess.com). Through our Internet website, we will make available, free of charge, the following reports as soon as reasonably practicable after electronically filing them with, or furnishing them to, the SEC: our annual report on Form 10-K; our quarterly reports on Form 10-Q; our current reports on Form 8-K; and amendments to those reports filed or furnished pursuant to Section 13(a) of the Securities Exchange Act of 1934. Our Proxy Statements for our Annual Meetings are also available through our Internet website. Our Internet website and the information contained therein or connected thereto are not intended to be incorporated into this Annual Report on Form 10-K. You may also obtain copies of our reports without charge by writing to:

MarketAxess Holdings Inc.

299 Park Avenue

New York, NY 10171

Attn: Investor Relations

Our Board of Directors has standing Audit, Compensation, Investment, and Nominating and Corporate Governance Committees. Each of these committees has a written charter approved by our Board of Directors.

**Table of Contents**

**Index to Financial Statements**

Our Board of Directors has also adopted a set of Corporate Governance Guidelines. Copies of each committee charter, along with the Corporate Governance Guidelines, are also posted on our website.

You may read and copy any document we file with the SEC at the SEC's public reference room at 100 F Street, NE, Room 1580, Washington, DC 20549. Please call the SEC at 1-800-SEC-0330 for information on the public reference room. The SEC maintains an Internet website that contains annual, quarterly and current reports, proxy and information statements and other information that issuers (including the Company) file electronically with the SEC. The SEC's internet website is [www.sec.gov](http://www.sec.gov).

We have obtained federal registration of the MarketAxess® name and logo, as well as for the marks Auto-Spotting®, BondLink®, Actives®, FrontPage® and DealerAxess®. We also have a number of other registered trademarks, service mark applications and trademark applications. Other trademarks and service marks appearing in this annual report on Form 10-K are the property of their respective holders.

**Table of Contents**

**Index to Financial Statements**

**Item 1A. Risk Factors.**

**Risks Related to Our Business**

*Global economic, political and market factors beyond our control could reduce demand for our services, and our profitability and business could suffer.*

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/or global financial services markets, resulting in reduced trading volume. These events could have a material adverse effect on our business, financial condition and results of operations. These factors include:

economic and political conditions in the United States, Europe and elsewhere;

adverse market conditions, including unforeseen market closures or other disruptions in trading;

broad trends in business and finance;

consolidation or contraction in the number of broker-dealers;

actual or threatened acts of war or terrorism or other armed hostilities;

concerns over inflation and weakening consumer confidence levels;

the availability of cash for investment by mutual funds and other wholesale and retail investors;

the level and volatility of interest and foreign currency exchange rates; and

legislative and regulatory changes.

Any one or more of these factors may contribute to reduced activity and prices in the securities markets generally. Our revenues and profitability are likely to decline significantly during periods of stagnant economic conditions or low trading volume in the U.S. and global financial markets.

*Decreases in trading volumes in the fixed-income markets generally or on our platform would harm our business and profitability.*

We have experienced significant decreases in overall trading volume in the past and may experience similar decreases in trading volume in the future. Declines in the overall volume of fixed-income securities trading and in market liquidity generally, as well as declines in interest rate volatility, could result in lower revenues from commissions for trades executed on our electronic trading platform and fees generated from related activities.

Likewise, decreases in our share of the segments of the fixed-income trading markets in which we operate, or shifts in trading volume to segments of clients which we have not penetrated, could result in lower trading volume on our platform and, consequently, lower commissions

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and other revenue. During periods of increased volatility in credit markets, the use of electronic trading platforms by market participants may decrease dramatically as institutional investors seek to obtain additional information during the trade process through conversations with broker-dealers. In addition, during rapidly moving markets, broker-dealers are less likely to post prices electronically.

A decline in trading volumes on our platform for any reason would negatively affect our commission revenue and may have a material adverse effect on our business, financial condition and results of operations.

***We face substantial competition that could reduce our market share and harm our financial performance.***

The fixed-income securities industry generally, and the electronic financial services markets in which we operate in particular, are highly competitive, and we expect competition to intensify in the future. We will

**Table of Contents**

**Index to Financial Statements**

continue to compete with bond trading conducted directly between broker-dealers and their institutional investor clients over the telephone or electronically. In addition, our current and prospective competitors are numerous and include:

other multi-dealer trading companies;

market data and information vendors;

securities and futures exchanges;

inter-dealer brokerage firms;

electronic communications networks;

technology, software, information and media or other companies that have existing commercial relationships with broker-dealers or institutional investors; and

other electronic marketplaces that are not currently in the securities business.

Many of our current and potential competitors are more established and substantially larger than we are and have substantially greater market presence, as well as greater financial, technical, marketing and other resources. These competitors may aggressively reduce their pricing to enter into market segments in which we have a leadership position today, potentially subsidizing any losses with profits from trading in other fixed-income or equity securities. In addition, many of our competitors offer a wider range of services, have broader name recognition and have larger customer bases than we do. Some of them may be able to respond more quickly to new or evolving opportunities, technologies and customer requirements than we can and may be able to undertake more extensive promotional activities.

Any combination of our competitors may enter into joint ventures or consortia to provide services similar to those provided by us. Current and new competitors can launch new platforms at a relatively low cost. Others may acquire the capabilities necessary to compete with us through acquisitions. We expect that we will potentially compete with a variety of companies with respect to each product or service we offer. If we are not able to compete successfully in the future, our business, financial condition and results of operations would be adversely affected.

***Neither the sustainability of our current level of business nor any future growth can be assured. Even if we do experience growth, we cannot assure you that we will grow profitably.***

The success of our business strategy depends, in part, on our ability to maintain and expand the network of broker-dealer and institutional investor clients that use our electronic trading platform. Our business strategy also depends on increasing the use of our platform by these clients. Individuals at broker-dealers or institutional investors may have conflicting interests, which may discourage their use of our platform.

Our growth is also dependent on our ability to diversify our revenue base. We currently derive approximately 60% of our revenues from secondary trading in U.S. high-grade corporate bonds. Our long-term business strategy is dependent on expanding our service offerings and increasing our revenues from other fixed-income products and other sources. We cannot assure you that our efforts will be successful or result in increased revenues or continued profitability. We have experienced significant growth in trading volumes, revenues and profitability over the past three years. We cannot assure you that our business will continue to grow at a similar rate, if at all.

***Because we operate in a rapidly evolving industry, it is difficult to evaluate our business and prospects.***

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We face risks and difficulties frequently experienced by companies operating in rapidly evolving industries, such as the electronic financial services industry. These risks and difficulties include, but are not limited to, our ability to:

attract and retain broker-dealers and institutional investors on a cost-effective basis;

respond effectively to the loss of any of our broker-dealer clients due to merger, consolidation, bankruptcy, liquidation or other cause, including, among other things, the collection of any amounts due from any such clients;



**Table of Contents**

**Index to Financial Statements**

expand and enhance reliable and cost-effective product and service offerings to our clients;

respond effectively to competitive pressures;

diversify our sources of revenues;

maintain adequate control of our expenses;

operate, support, expand and develop our operations, technology, website, software, communications and other systems;

manage growth in personnel and operations;

increase awareness of our brand or market positioning;

expand our sales and marketing programs

take advantage of acquisitions, strategic alliances and other opportunities; and

respond to regulatory changes or demands.

If we are unsuccessful in addressing these risks or in executing our business strategy, our business, financial condition and results of operations may suffer.

***We may enter into new fee plans, the impact of which may be difficult to evaluate.***

From time to time we may introduce new fee plans for the U.S. high-grade corporate bond, Eurobond and other market segments in which we operate. Any new fee plan may include different fee structures or provide volume incentives. For example, as a result of the effect on our Eurobond trading volumes of continuing sovereign debt concerns and the competitive environment in Europe, we intend to amend our European broker-dealer plan effective March 1, 2012; this amendment will reduce the distribution fees charged to our European broker-dealer clients but leave dealer variable transaction fees unchanged.

We cannot assure you that any new fee plans will result in an increase in the volume of transactions effected on our platform or that our revenues will increase as a result of the implementation of any such fee plans. It is possible that our broker-dealer or institutional investor clients could respond to a new fee plan by either reducing the amount of their business conducted on our platform or terminating their contractual relationship with us, which could have an adverse impact on our fees and otherwise have a material adverse effect on our business, financial condition and results of operations.

***We are exposed to risks resulting from non-performance by counterparties to certain transactions executed between our clients in which we act as an intermediary in matching back-to back bond trades.***

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 are then settled through a third-party clearing organization. MarketAxess Corporation, our U.S. subsidiary, and MarketAxess Europe Limited, our U.K. subsidiary, act as intermediary on a

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riskless principal basis in these bond transactions by serving as counterparty to the two clients involved. 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 executing bond trades on our platform. 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. There can be no assurance that the policies and procedures we use to manage this credit risk will effectively mitigate our credit risk exposure.

**Table of Contents**

**Index to Financial Statements**

***We are dependent on our broker-dealer clients, who are not restricted from buying and selling fixed-income securities, directly or through their own proprietary or third-party platforms, with institutional investors.***

We rely on our broker-dealer clients to provide product and liquidity on our electronic trading platform by posting bond prices on our platform for bonds in their inventory and responding to institutional investor client inquiries. The contractual obligations of our broker-dealer clients to us are minimal, non-exclusive and terminable by such clients. Our broker-dealer clients buy and sell fixed-income securities through traditional methods, including by telephone and e-mail messaging, and through other electronic trading platforms. Some of our broker-dealer clients have developed electronic trading networks that compete with us or have announced their intention to explore the development of such electronic trading networks, and most of our broker-dealer and institutional investor clients are involved in other ventures, including other electronic trading platforms or other distribution channels, as trading participants and/or as investors. These competing trading platforms may offer some features that we do not currently offer. Accordingly, there can be no assurance that such broker-dealers' primary commitments will not be to one of our competitors.

Any reduction in the use of our electronic trading platform by our broker-dealer clients could reduce the number of different bond issues and the volume of trading in those bond issues on our platform, which could, in turn, reduce the use of our platform by our institutional investor clients. The occurrence of any of the foregoing may have a material adverse effect on our business, financial condition and results of operations.

***We could lose significant sources of revenue and trading volume if we lose any of our significant institutional investor clients.***

We rely on our institutional investor clients to launch inquiries over our trading platform. A limited number of such clients can account for a significant portion of our trading volume. One institutional investor client accounted for approximately 14.6%, 15.8% and 12.1% of trading volumes during the years ended December 31, 2011, 2010 and 2009, respectively. This institutional investor client also beneficially owns approximately 5% of the outstanding shares of our common stock. The contractual obligations of our institutional investor clients to us are minimal, non-exclusive and terminable by such clients. Our institutional investor clients buy and sell fixed-income securities through traditional methods, including by telephone and e-mail messaging, and through other electronic trading platforms.

There can be no assurance that we will be able to retain our major institutional investor clients or that such clients will continue to use our trading platform. The loss of any major institutional investor client or any reduction in the use of our electronic trading platform by such clients could have a material adverse effect on our business, financial condition and results of operations.

***If we experience significant fluctuations in our operating results or fail to meet revenue and earnings expectations, our stock price may fall rapidly and without advance notice.***

Our revenues and operating results may fluctuate due to a number of factors, including:

the unpredictability of the financial services industry;

difficulty in quickly adjusting our expense base if revenues fall short of expectations;

our ability to retain existing broker-dealer and institutional investor clients and attract new broker-dealer and institutional investor clients;

our ability to drive an increase in use of our electronic trading platform by new and existing broker-dealer and institutional investor clients;

changes in our pricing policies;

the introduction of new features on our electronic trading platform;

the effectiveness of our sales force;

**Table of Contents**

**Index to Financial Statements**

new product and service introductions by our competitors;

fluctuations in overall market trading volume;

technical difficulties or interruptions in our service;

general economic conditions in our geographic markets;

additional investment in our services or operations; and

regulatory compliance costs.

As a result, our operating results may fluctuate significantly on a quarterly basis, which could result in decreases in our stock price.

***We may not be able to introduce enhanced versions of our electronic trading platform, new services and/or service enhancements in a timely or acceptable manner, which could harm our competitive position.***

Our business environment is characterized by rapid technological change, changing and increasingly sophisticated client demands and evolving industry standards. Our future will depend on our ability to develop and introduce new features to, and new versions of, our electronic trading platform. The success of new features and versions depends on several factors, including the timely completion, introduction and market acceptance of the feature or version. In addition, the market for our electronic trading platform may be limited if prospective clients require customized features or functions that we are unable or unwilling to provide. If we are unable to anticipate and respond to the demand for new services, products and technologies and develop new features and enhanced versions of our electronic trading platform that achieve widespread levels of market acceptance on a timely and cost-effective basis, it could have a material adverse effect on our business, financial condition and results of operations.

***As we enter new markets, we may not be able to successfully attract clients and adapt our technology and marketing strategy for use in those markets.***

Our strategy includes leveraging our electronic trading platform to enter new markets. We cannot assure you that we will be able to successfully adapt our proprietary software and technology for use in other markets. Even if we do adapt our software and technology, we cannot assure you that we will be able to attract clients and compete successfully in any such new markets. We cannot assure you that our marketing efforts or our pursuit of any of these opportunities will be successful. If these efforts are not successful, we may realize less than expected earnings, which in turn could result in a decrease in the market value of our common stock. Furthermore, these efforts may divert management attention or inefficiently utilize our resources.

***Rapid market or technological changes may render our technology obsolete or decrease the attractiveness of our products and services to our broker-dealer and institutional investor clients.***

We must continue to enhance and improve our electronic trading platform. The electronic financial services industry is characterized by significant structural changes, increasingly complex systems and infrastructures, changes in clients' needs and preferences and new business models. If new industry standards and practices emerge and our competitors release new technology before us, our existing technology, systems and electronic trading platform may become obsolete or our existing business may be harmed. Our future success will depend on our ability to:

enhance our existing products and services;

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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;

continue to attract highly-skilled technology personnel; and

respond to technological advances and emerging industry standards and practices on a cost-effective and timely basis.

**Table of Contents**

**Index to Financial Statements**

Developing our electronic trading platform and other technology entails significant technical and business risks. We may use new technologies ineffectively or we may fail to adapt our electronic trading platform, information databases and network infrastructure to broker-dealer or institutional investor client requirements or emerging industry standards. For example, our electronic trading platform functionality that allows searches and inquiries on bond pricing and availability is a critical part of our service, and it may become out-of-date or insufficient from our broker-dealer clients' or institutional investor clients' perspective and in relation to the inquiry functionality of our competitors' systems. If we face material delays in introducing new services, products and enhancements, our broker-dealer and institutional investor clients may forego the use of our products and use those of our competitors.

Further, the adoption of new Internet, networking or telecommunications technologies may require us to devote substantial resources to modify and adapt our services. We cannot assure you that we will be able to successfully implement new technologies or adapt our proprietary technology and transaction-processing systems to client requirements or emerging industry standards. We cannot assure you that we will be able to respond in a timely manner to changing market conditions or client requirements.

***We depend on third-party suppliers for key products and services.***

We rely on a number of third parties to supply elements of our trading, information and other systems, as well as computers and other equipment, and related support and maintenance. We cannot assure you that any of these providers will be able to continue to provide these services in an efficient, cost-effective manner, if at all, or that they will be able to adequately expand their services to meet our needs. If we are unable to make alternative arrangements for the supply of critical products or services in the event of a malfunction of a product or an interruption in or the cessation of service by an existing service provider, our business, financial condition and results of operations could be materially adversely affected.

In particular, we depend on a third-party vendor for our corporate bond reference database. Disruptions in the services provided by that third party to us, including as a result of their inability or unwillingness to continue to license products that are critical to the success of our business, could have a material adverse effect on our business, financial condition and results of operations.

We also rely, and expect in the future to continue to rely, on third parties for various computer and communications systems, such as telephone companies, online service providers, data processors, and software and hardware vendors. Other third parties provide, for instance, our data center, telecommunications access lines and significant computer systems and software licensing, support and maintenance services. Any interruption in these or other third-party services or deterioration in their performance could impair the quality of our service. We cannot be certain of the financial viability of all of the third parties on which we rely.

We license software from third parties, much of which is integral to our electronic trading platform and our business. We also hire contractors to assist in the development, quality assurance testing and maintenance of our electronic trading platform and other systems. Continued access to these licensors and contractors on favorable contract terms or access to alternative software and information technology contractors is important to our operations. Adverse changes in any of these relationships could have a material adverse effect on our business, financial condition and results of operations.

We attempt to negotiate favorable pricing, service, confidentiality and intellectual property ownership or licensing and other terms in our contracts with our service providers. These contracts usually have multi-year terms. However, there is no guarantee that these contracts will not terminate and that we will be able to negotiate successor agreements or agreements with alternate service providers on competitive terms. Further, the existing agreements may bind us for a period of time to terms and technology that become obsolete as our industry and our competitors advance their own operations and contracts.

**Table of Contents**

**Index to Financial Statements**

*Our success depends on maintaining the integrity of our electronic trading platform, systems and infrastructure; our computer systems may suffer failures, capacity constraints and business interruptions that could increase our operating costs and cause us to lose clients.*

In order to be successful, we must provide reliable, secure, real-time access to our electronic trading platform for our broker-dealer and institutional investor clients. If our electronic trading platform is hampered by slow delivery times, unreliable service or insufficient capacity, our broker-dealer and institutional investor clients may decide to stop using our platform, which would have a material adverse effect on our business, financial condition and results of operations.

As our operations grow in both size and scope, we will need to improve and upgrade our electronic trading platform and infrastructure to accommodate potential increases in order message volume and trading volume, the trading practices of new and existing clients, regulatory changes and the development of new and enhanced trading platform features, functionalities and ancillary products and services. The expansion of our electronic trading platform and infrastructure has required, and will continue to require, substantial financial, operational and technical resources. These resources will typically need to be committed well in advance of any actual increase in trading volumes and order messages. We cannot assure you that our estimates of future trading volumes and order messages will be accurate or that our systems will always be able to accommodate actual trading volumes and order messages without failure or degradation of performance. Furthermore, we use new technologies to upgrade our established systems, and the development of these new technologies also entails technical, financial and business risks. We cannot assure you that we will successfully implement new technologies or adapt our existing electronic trading platform, technology and systems to the requirements of our broker-dealer and institutional investor clients or to emerging industry standards. The inability of our electronic trading platform to accommodate increasing trading volume and order messages would also constrain our ability to expand our business.

We cannot assure you that we, or our third party service providers, will not experience systems failures. Our electronic trading platform, computer and communication systems and other operations are vulnerable to damage, interruption or failure as a result of, among other things:

irregular or heavy use of our electronic trading platform during peak trading times or at times of unusual market volatility;

power or telecommunications failures, hardware failures or software errors;

human error;

computer viruses, acts of vandalism or sabotage (and resulting potential lapses in security), both internal and external;

natural disasters, fires, floods or other acts of God;

acts of war or terrorism (including cyberterrorism) or other armed hostility;

cybersecurity breaches; and

loss of support services from third parties, including those to whom we outsource aspects of our computer infrastructure critical to our business.

In the event that any of our systems, or those of our third-party providers, fail or operate slowly, it may cause any one or more of the following to occur:



unanticipated disruptions in service to our clients;

distribution of untimely or inaccurate market data to customers who rely on this data for their trades;

slower response times or delays in our clients' trade execution;

incomplete or inaccurate accounting, recording or processing of trades;

## Table of Contents

### Index to Financial Statements

financial losses and liabilities to clients;

litigation or other claims against us, including formal complaints to industry regulatory organizations; and

regulatory inquiries, proceedings or sanctions.

Any system failure that causes an interruption in service or decreases the responsiveness of our service, including failures caused by client error or misuse of our systems, could damage our reputation, business and brand name and lead our broker-dealer and institutional investor clients to decrease or cease their use of our electronic trading platform.

In these circumstances, our redundant systems or disaster recovery plans may not be adequate. Similarly, although many of our contracts with our service providers require them to have disaster recovery plans, we cannot be certain that these will be adequate or implemented properly. In addition, our business interruption insurance may not adequately compensate us for losses that may occur.

We also cannot assure you that we have sufficient personnel to properly respond to system problems. We internally support and maintain many of our computer systems and networks, including those underlying our electronic trading platform. Our failure to monitor or maintain these systems and networks or, if necessary, to find a replacement for this technology in a timely and cost-effective manner would have a material adverse effect on our business, financial condition and results of operations.

***Our systems and those of our third party service providers may be vulnerable to cybersecurity risks. If our security measures are breached and unauthorized access is obtained to our electronic trading platform, our business could suffer a material adverse effect.***

Our electronic trading platform involves the storage and transmission of our clients' proprietary information. The secure storage and transmission of confidential information over public networks is a critical element of our operations. Cyber attacks on our systems or the systems of our third party service providers could expose us to a risk of misappropriation of this information, leading to litigation and possible liability. If our security measures are breached as a result of third-party action, employee error, malfeasance or otherwise, and, as a result, someone obtains unauthorized access to trading or other confidential information, our reputation could be damaged, our business may suffer and we could incur significant liability. Because techniques used to obtain unauthorized access or to sabotage computer systems change frequently and generally are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventive measures. Any cybersecurity breach may have a material adverse effect on our business, financial condition and results of operations. A cyber attack or security breach on our system or that of a third party service provider could manifest in different ways and could lead to any number of harmful consequences, including but not limited to:

misappropriation of financial assets, intellectual property or sensitive information belonging to us, our clients or our third party service providers;

corruption of data or causing operational disruption through computer viruses or phishing; and

denial of service attacks to prevent users from accessing our platform.

Our remediation costs and lost revenues could be significant if we fall victim to a cyber attack. If an actual, threatened or perceived breach of our security occurs, the market perception of the effectiveness of our security measures could be harmed and could cause our broker-dealer and institutional investor clients to reduce or stop their use of our electronic trading platform. We may be required to expend significant resources to repair system damage, protect against the threat of future security breaches or to alleviate problems, including reputational harm, loss of clients and revenues and litigation, caused by any breaches. We may be found liable to our clients for any stolen assets or misappropriated confidential information. Although we intend to continue to implement industry-standard security measures, we cannot assure you that those measures will be sufficient.



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**Table of Contents**

**Index to Financial Statements**

***We may not be able to protect our intellectual property rights or technology effectively, which would allow competitors to duplicate or replicate our electronic trading platform. This could adversely affect our ability to compete.***

Intellectual property is critical to our success and ability to compete, and if we fail to protect our intellectual property rights adequately, our competitors might gain access to our technology. We rely primarily on a combination of patent, copyright, trademark and trade secret laws in the United States and other jurisdictions, as well as license agreements, third-party non-disclosure and other agreements and other contractual provisions and technical measures to protect our intellectual property rights. We attempt to negotiate beneficial intellectual property ownership provisions in our contracts and also require employees, consultants, advisors and collaborators to enter into confidentiality agreements in order to protect the confidentiality of our proprietary information. We have received seven patents and have filed patent applications covering aspects of our technology and/or business, but can give no assurances that any such patents will protect our business and processes from competition or that the patents applied for will be issued. Additionally, laws and our contractual terms may not be sufficient to protect our technology from use or theft by third parties. For instance, a third party might reverse engineer or otherwise obtain and use our technology without our permission and without our knowledge, thereby infringing our rights and allowing competitors to duplicate or replicate our products. Furthermore, we cannot assure you that these protections will be adequate to prevent our competitors from independently developing technologies that are substantially equivalent or superior to our technology.

We may have legal or contractual rights that we could assert against illegal use of our intellectual property rights, but lawsuits claiming infringement or misappropriation are complex and expensive, and the outcome would not be certain. In addition, the laws of some countries in which we now or in the future provide our services may not protect software and intellectual property rights to the same extent as the laws of the United States.

***Defending against intellectual property infringement or other claims could be expensive and disruptive to our business. If we are found to infringe the proprietary rights of others, we could be required to redesign our products, pay royalties or enter into license agreements with third parties.***

In the technology industry, there is frequent litigation based on allegations of infringement or other violations of intellectual property rights. As the number of participants in our market increases and the number of patents and other intellectual property registrations increases, the possibility of an intellectual property claim against us grows. Although we have never been the subject of a material intellectual property dispute, we cannot assure you that a third party will not assert in the future that our technology or the manner in which we operate our business violates its intellectual property rights. From time to time, in the ordinary course of our business, we may become subject to legal proceedings and claims relating to the intellectual property rights of others, and we expect that third parties may assert intellectual property claims against us, particularly as we expand the complexity and scope of our business, the number of electronic trading platforms increases and the functionality of these platforms further overlaps. Any claims, whether with or without merit, could:

be expensive and time-consuming to defend;

prevent us from operating our business, or portions of our business;

cause us to cease developing, licensing or using all or any part of our electronic trading platform that incorporates the challenged intellectual property;

require us to redesign our products or services, which may not be feasible;

result in significant monetary liability;

divert management's attention and resources; and

require us to pay royalties or enter into licensing agreements in order to obtain the right to use necessary technologies, which may not be possible on commercially reasonable terms.

## Table of Contents

### Index to Financial Statements

We cannot assure you that third parties will not assert infringement claims against us in the future with respect to our electronic trading platform or any of our other current or future products or services or that any such assertion will not require us to cease providing such services or products, try to redesign our products or services, enter into royalty arrangements, if available, or engage in litigation that could be costly to us. Any of these events could have a material adverse effect on our business, financial condition and results of operations.

*If we acquire or invest in other businesses, products or technologies, we may be unable to integrate them with our business, our financial performance may be impaired or we may not realize the anticipated financial and strategic goals for any such transactions.*

If appropriate opportunities present themselves, we may acquire or make investments in businesses, products or technologies that we believe are strategic. We may not be able to identify, negotiate or finance any future acquisition or investment successfully. Even if we do succeed in acquiring or investing in a business, product or technology, such acquisitions and investments involve a number of risks, including:

we may find that the acquired company or assets do not further our business strategy, or that we overpaid for the company or assets, or the economic conditions underlying our acquisition decision may change;

we may have difficulty integrating the acquired technologies or products with our existing electronic trading platform, products and services;

we may have difficulty integrating the operations and personnel of the acquired business, or retaining the key personnel of the acquired business;

there may be client confusion if our services overlap with those of the acquired company;

our ongoing business and management's attention may be disrupted or diverted by transition or integration issues and the complexity of managing geographically or culturally diverse enterprises;

we may have difficulty maintaining uniform standards, controls, procedures and policies across locations;

an acquisition may result in litigation from terminated employees or third parties; and

we may experience significant problems or liabilities associated with product quality, technology and legal contingencies. These factors could have a material adverse effect on our business, financial condition, results of operations and cash flows, particularly in the case of a larger acquisition or multiple acquisitions in a short period of time. From time to time, we may enter into negotiations for acquisitions or investments that are not ultimately consummated. Such negotiations could result in significant diversion of management time, as well as out-of-pocket costs.

The consideration paid in connection with an investment or acquisition also affects our financial results. If we were to proceed with one or more significant acquisitions in which the consideration included cash, we could be required to use a substantial portion of our available cash to consummate any acquisition. To the extent we issue shares of capital stock or other rights to purchase capital stock, including options or other rights, existing stockholders may be diluted and earnings per share may decrease. In addition, acquisitions may result in the incurrence of debt, large one-time write-offs, such as of acquired in-process research and development costs, and restructuring charges.

*We may be required to recognize impairments of our goodwill or other intangible assets, which could adversely affect our results of operations or financial condition.*

The determination of the value of goodwill and other intangible assets requires management to make estimates and assumptions that affect our consolidated financial statements. We test for impairment of goodwill on an annual basis or more frequently if there are changed circumstances. We assess intangible assets for impairment when events or circumstances indicate the existence of a possible impairment.

## Table of Contents

### Index to Financial Statements

Determining the fair value of certain assets acquired and liabilities assumed is judgmental in nature and requires management to use significant estimates and assumptions, including assumptions with respect to future cash flows, discount rates, growth rates and asset lives. Any future acquisition may result in goodwill and other intangible assets that are subject to impairment tests, which could result in future impairment charges.

*We are dependent on our management team, and the loss of any key member of this team may prevent us from implementing our business plan in a timely manner.*

Our success depends largely upon the continued services of our executive officers and other key personnel, particularly Richard M. McVey, Chief Executive Officer and Chairman of our Board of Directors. The terms of Mr. McVey's employment agreement with us do not require him to continue to work for us and allow him to terminate his employment at any time, subject to certain notice requirements and forfeiture of non-vested equity compensation awards. Any loss or interruption of Mr. McVey's services or that of one or more of our other executive officers or key personnel could result in our inability to manage our operations effectively and/or pursue our business strategy.

*Because competition for our employees is intense, we may not be able to attract and retain the highly skilled employees we need to support our business.*

We strive to provide high-quality services that will allow us to establish and maintain long-term relationships with our broker-dealer and institutional investor clients. Our ability to provide these services and maintain these relationships, as well as our ability to execute our business plan generally, depends in large part upon our employees. We must attract and retain highly qualified personnel. Competition for these personnel is intense, especially for software engineers with extensive experience in designing and developing software and Internet-related services, hardware engineers, technicians, product managers and senior sales executives.

The market for qualified personnel is increasingly competitive as the financial industry continues to recover from the financial crisis and as electronic commerce continues to experience strong growth. Many of the companies with which we compete for experienced personnel have greater resources than we have and are longer established in the marketplace. In addition, in making employment decisions, particularly in the Internet, high-technology and financial services industries, job candidates often consider the total compensation package offered, including the value of the stock-based compensation they are to receive in connection with their employment. Significant volatility in the price of our common stock may adversely affect our ability to attract or retain key employees. The expensing of stock-based compensation may discourage us from granting the size or type of stock-based compensation that job candidates may require to join our company.

We cannot assure you that we will be successful in our efforts to recruit and retain the required personnel. The failure to attract new personnel or to retain and motivate our current personnel may have a material adverse effect on our business, financial condition and results of operations.

*Our business is subject to increasingly extensive government and other regulation and our relationships with our broker-dealer clients may subject us to increasing regulatory scrutiny, which may affect our trading volumes and increase our cost of doing business.*

The financial industry is extensively regulated by many governmental agencies and self-regulatory organizations, including the SEC and FINRA. As a matter of public policy, these regulatory bodies are responsible for safeguarding the integrity of the securities and other financial markets and protecting the interests of investors in those markets. These regulatory bodies have broad powers to promulgate and interpret, investigate and sanction non-compliance with their laws, rules and regulations.

Most aspects of our broker-dealer subsidiaries are highly regulated, including:

the way we deal with our clients;



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**Table of Contents**

**Index to Financial Statements**

our capital requirements;

our financial and regulatory reporting practices;

required record-keeping and record retention procedures;

the licensing of our employees; and

the conduct of our directors, officers, employees and affiliates.

We cannot assure you that we and/or our directors, officers and employees will be able to fully comply with these laws, rules and regulations. If we fail to comply with any of these laws, rules or regulations, we may be subject to censure, fines, cease-and-desist orders, suspension of our business, suspensions of personnel or other sanctions, including revocation of our membership in FINRA and registration as a broker-dealer.

We have two major operating subsidiaries, MarketAxess Corporation and MarketAxess Europe Limited. MarketAxess Corporation and MarketAxess Europe Limited are subject to U.S. and U.K. regulations as a registered broker-dealer and as a multilateral trading facility, respectively, 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, without prior notification to or approval from such subsidiary's principal regulator.

In addition, as a result of the global financial crisis and other recent events in the financial industry, there is a greater likelihood of legislative and regulatory action to increase government oversight of the financial services industry. For example, during 2010 the Dodd-Frank Act was signed into law. The Dodd-Frank Act creates an entirely new structure for the trading of over-the-counter derivatives, a market in which we currently operate. Among other things, the Dodd-Frank Act mandates that clearable swaps trade on a board of trade designated as a contract market or a securities exchange or through a swap execution facility, or SEF (in each case, subject to certain key exceptions). While we expect that the CFTC and SEC will adopt rules that detail the new regulatory regime regarding the swaps market place in 2012, no assurance can be given regarding when, or whether, such rules will be finalized and implemented. Subject to such rulemaking, we intend to establish, register and operate a swap execution facility and/or a security-based swap execution facility.

We have incurred significant costs to prepare for compliance with the new regulatory requirements. We developed new technology and trading protocols to trade CDS in anticipation of the SEC and CFTC's implementation of the Dodd-Frank Act. However, despite our efforts, there is no assurance that we will qualify as a registered SEF or that our compliance systems will be effective. If we do not qualify as a SEF, we will no longer be able to support CDS trades and our business, financial condition and results of operations could materially suffer as a result. If we qualify as a SEF, the registration and additional oversight that we will need to comply with the regulation will increase the costs of our operations and the costs of using our products for our clients. Furthermore, we are unable to predict how the markets will respond to the new regulatory regime.

Any changes in laws or regulations or in governmental policies, including the rules relating to the maintenance of specific levels of net capital applicable to our broker-dealer subsidiaries, could have a material adverse effect on our business, financial condition and results of operations. 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 compliance costs or cause the development of affected markets to become impractical. In addition, as we expand our business into new markets, it is likely that we will be subject to additional laws, rules and regulations. The proposed Volcker Rule section of the Dodd-Frank Act bans proprietary trading by banks and their affiliates. The Volcker Rule could adversely affect our bank-affiliated broker-dealer clients' ability to make markets in a variety of fixed-income securities, thereby negatively impacting the level of liquidity and pricing available on our trading platform. We cannot predict the extent to which any future regulatory changes may adversely affect our business and operations.

## Table of Contents

### Index to Financial Statements

Our disclosed trading system has not been subjected to regulation as an alternative trading system under Regulation ATS. A determination by the SEC to treat our trading platform as an alternative trading system subject to Regulation ATS would subject us to additional reporting obligations and other limitations on the conduct of our business, many of which could be material. Our anonymous dealer-to-dealer trading service, DealerAxess<sup>®</sup>, is regulated as an alternative trading system subject to Regulation ATS.

As an enterprise founded and historically controlled by broker-dealers that compete with each other, we may be subject to ongoing regulatory scrutiny of our business to a degree that is not likely to be experienced by some of our competitors. At any time, the outcome of investigations and other regulatory scrutiny could lead to compulsory changes to our business model, conduct or practices, or our relationships with our broker-dealer clients, or additional governmental scrutiny or private lawsuits against us, any of which could materially harm our revenues, impair our ability to provide access to the broadest range of fixed-income securities and impact our ability to grow and compete effectively, particularly as we implement new initiatives designed to enhance our competitive position.

The activities and consequences described above may result in significant distractions to our management and could have a material adverse effect on our business, financial condition and results of operations.

***We may face increasing economic and regulatory challenges in our growing international operations that we may not be able to meet in the future.***

We operate an electronic trading platform in Europe and we plan to further expand our operations throughout Europe and other regions. There are certain risks inherent in doing business in international markets, particularly in the financial services industry, which is heavily regulated in many jurisdictions. These risks include:

less developed technological infrastructures and generally higher costs, which could result in lower client acceptance of our services or clients having difficulty accessing our trading platform;

difficulty in obtaining the necessary regulatory approvals for planned expansion, if at all, and the possibility that any approvals that are obtained may impose restrictions on the operation of our business;

the inability to manage and coordinate the various regulatory requirements of multiple jurisdictions that are constantly evolving and subject to unexpected change;

difficulties in staffing and managing foreign operations;

fluctuations in exchange rates;

reduced or no protection for intellectual property rights;

seasonal reductions in business activity; and

potentially adverse tax consequences.

Our international operations are also subject to the legal, economic and market risks associated with geopolitical uncertainties in other regions of the world, including but not limited to the risk of war, inter and intra national conflict, economic crises and terrorism. For example, the sovereign debt crisis in Europe may have a material adverse effect on our business. Increased government deficits and debt levels along with ratings

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downgrades sparked fears in the global financial markets of default by Euro zone nations, leading to increased yields on government bonds and resulting in a more difficult trading environment for European corporate bonds. Due, in part, to the crisis and competitive environment in Europe, trading volume in our Eurobond product has significantly decreased. We intend to reduce the monthly distribution fees paid by our European broker-dealer market makers effective March 1, 2012 in order to encourage Eurobond trading, which will result in decreased monthly distribution fee revenues. Despite our efforts, there is no assurance that Eurobond trading volumes and revenues will increase as a result of this change.

**Table of Contents**

**Index to Financial Statements**

In addition, we must comply with the laws, regulations and registration rules of the Financial Services Authority in the U.K. and foreign governments and regulatory bodies for each country in which we conduct business. Similar to the U.S., regulatory bodies in Europe are developing new rules for derivatives trading. For example, the European Commission has issued three consultation papers intended to help define certain terms in the new OTC derivatives landscape and, in 2010, proposed legislation that mandates, among other things, central clearing of standardized CDS contracts. Although the European regulators have not yet adopted such legislation, our expectation is that the EU will, in line with the U.S., require central clearing of standardized CDS contracts and increase transparency through enhanced trade reporting requirements. However, it is not yet clear whether there will be any requirement in the EU to trade standardized CDS contracts on regulated exchanges or trading platforms.

Our compliance with these changing laws and regulations may be costly and time-consuming. Further, we may face unexpected challenges in our international operations due to global competitors, established local markets, and economic and political instability. Our inability to manage these risks effectively could adversely affect our business and limit our ability to expand our international operations, which could have a material adverse effect on our business, financial condition and results of operations.

***We cannot assure you that our compliance and risk management methods will be effective and our financial condition and results of operations may be adversely affected if they fail.***

Our success in complying with complex and changing laws and navigating risks in various jurisdictions and markets depends on our maintenance of compliance, auditing and reporting systems and risk management procedures, as well as our ability to recruit and retain qualified compliance and risk management personnel. While we have developed policies and procedures to identify, monitor and manage our legal, regulatory and market risks, we cannot assure you that our systems will always be effective in monitoring or evaluating the risks to which we are exposed.

In addition, the regulators in the jurisdictions in which we operate have broad powers to censure, fine, issue cease-and-desist orders or keep us from engaging in some of our operations. We face the risk of regulatory intervention, investigations and proceedings, any of which could involve extensive scrutiny of our activities and result in significant fines and liability. Any of these developments would require significant time and financial resources and could adversely affect our reputation, financial condition and operating results.

***We cannot predict our future capital needs or our ability to obtain additional financing if we need it.***

Our business is dependent upon the availability of adequate funding and regulatory capital under applicable regulatory requirements. Although we believe that our available cash resources are sufficient to meet our presently anticipated liquidity needs and capital expenditure requirements for at least the next 12 months, we may in the future need to raise additional funds to, among other things:

support more rapid growth of our business;

develop new or enhanced services and products;

fund operating losses;

respond to competitive pressures;

acquire complementary companies or technologies;

enter into strategic alliances;

increase the regulatory net capital necessary to support our operations; or

respond to unanticipated or changing capital requirements.

**Table of Contents**

**Index to Financial Statements**

We may not be able to obtain additional financing, if needed, in amounts or on terms acceptable to us, if at all. If sufficient funds are not available or are not available on terms acceptable to us, our ability to fund our expansion, take advantage of acquisition opportunities, develop or enhance our services or products, or otherwise respond to competitive pressures would be significantly limited. These limitations could have a material adverse effect on our business, financial condition and results of operations.

*We are subject to the risks of litigation and securities laws liability.*

Many aspects of our business, and the businesses of our clients, involve substantial risks of liability. Dissatisfied clients may make claims regarding quality of trade execution, improperly settled trades, mismanagement or even fraud against their service providers. We and our clients may become subject to these claims as the result of delays, failures or malfunctions of our electronic trading platform and services provided by us. We could incur significant legal expenses defending claims, even those without merit. An adverse resolution of any lawsuits or claims against us could have a material adverse effect on our business, financial condition and results of operations.

*If the use of electronic trading platforms does not increase, we may not be able to achieve our business objectives.*

The success of our business plan depends in part on our ability to create an electronic trading platform for a wide range of fixed-income products. Historically, fixed-income securities markets operated through telephone communications between institutional investors and broker-dealers. The utilization of our products and services depends on the acceptance, adoption and growth of electronic means of trading securities. We cannot assure you that the growth and acceptance of electronic means of trading securities will continue.

**Risks Related to Our Common Stock**

*Market volatility and future sales of our shares by significant stockholders may cause our stock price and the value of your investment to decline.*

The market price of our common stock may be significantly affected by volatility in the markets in general. The market price of our common stock likely will continue to fluctuate in response to factors including the following:

the other risk factors described in this annual report on Form 10-K;

prevailing interest rates;

the market for similar securities;

additional issuances of common stock;

general economic conditions; and

our financial condition, performance and prospects, including our ability or inability to meet analyst expectations.

Most of these factors are beyond our control. In addition, the stock markets in general, including the NASDAQ Global Select Market, have experienced and continue to experience significant price and volume fluctuations. These fluctuations have resulted in volatility in the market prices of securities for companies such as ours that often has been unrelated or disproportionate to changes in the operating performance of the affected companies. These broad market and industry fluctuations may affect adversely the market price of our common stock regardless of our operating performance.

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In addition, future sales of our common stock, or the perception of potential future sales, may adversely impact the market price of our common stock. If any one or more of our existing stockholders were to sell a

**Table of Contents**

**Index to Financial Statements**

large number of shares, the market price of our common stock could be negatively affected. Also, if we issue a large number of shares of our common stock in connection with a public offering, future acquisition, strategic alliance, third-party investment and private placement or otherwise, the market price of our common stock could decline considerably. Furthermore, our stockholders may be diluted by such future sales.

*We may not pay dividends on our common stock in the future.*

We initiated a regular quarterly dividend on our common stock in 2009. However, there is no assurance that we will continue to pay any dividends to holders of our common stock in the future. If we were to cease paying dividends, investors would need to rely on the sale of their common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investment.

*If securities analysts do not publish research or reports about our business or if they downgrade our common stock, the price of our common stock could decline.*

The trading market for our common stock relies in part on the research and reports that industry or financial analysts publish about us or our business. These analysts work independently of us. If one or more analysts who cover us downgrade our stock, our stock price could decline rapidly. If one or more of these analysts cease coverage of our company, we could lose visibility in the market, which in turn could cause our stock price to decline.

*Provisions in our organizational documents and Delaware law might discourage, delay or prevent a change of control of our company or changes in our management, and therefore, depress the trading price of our common stock.*

Provisions of our certificate of incorporation and bylaws may make it substantially more difficult for a third party to acquire control of us and may prevent changes in our management, including provisions that:

prevent stockholders from calling special meetings;

allow the directors to amend the bylaws without stockholder approval; and

set forth advance notice procedures for nominating directors and submitting proposals for consideration at stockholders' meetings.

Provisions of Delaware law may also inhibit potential acquisition bids for us or prevent us from engaging in business combinations. In addition, we have a severance agreement with one employee and a change of control severance plan that could require an acquiror to pay a higher price. Either collectively or individually, these provisions may prevent holders of our common stock from benefiting from what they may believe are the positive aspects of acquisitions and takeovers, including the potential realization of a higher rate of return on their investment from these types of transactions.

**Item 1B. *Unresolved Staff Comments.***

None.

**Item 2. *Properties.***

Our corporate headquarters and principal U.S. offices are located at 299 Park Avenue, New York, New York, where we lease 27,900 square feet under sequential leases expiring in February 2022. We also collectively lease approximately 18,300 square feet for our other office locations in the U.S. and the United Kingdom under various leases expiring between September 2013 and November 2020.



**Table of Contents****Index to Financial Statements****Item 3. *Legal Proceedings.***

None.

**Item 4. *Mine Safety Disclosures.***

Not applicable.

**PART II****Item 5. *Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.***  
**Price Range**

Our common stock trades on the NASDAQ Global Select Market under the symbol MKTX. The range of closing price information for our common stock, as reported by NASDAQ, was as follows:

<b>2011:</b>	<b>High</b>	<b>Low</b>
January 1, 2011 to March 31, 2011	\$ 24.19	\$ 19.78
April 1, 2011 to June 30, 2011	\$ 25.22	\$ 21.00
July 1, 2011 to September 30, 2011	\$ 30.75	\$ 23.41
October 1, 2011 to December 31, 2011	\$ 31.16	\$ 24.57
<b>2010:</b>	<b>High</b>	<b>Low</b>
January 1, 2010 to March 31, 2010	\$ 16.20	\$ 13.25
April 1, 2010 to June 30, 2010	\$ 17.40	\$ 13.45
July 1, 2010 to September 30, 2010	\$ 17.30	\$ 12.39
October 1, 2010 to December 31, 2010	\$ 20.93	\$ 16.93

On February 16, 2012, the last reported closing price of our common stock on the NASDAQ Global Select Market was \$32.65.

 **Holders**

There were 41 holders of record of our common stock as of February 16, 2012.

 **Dividend Policy**

We initiated a regular quarterly dividend in the fourth quarter of 2009. During 2010 and 2011, we paid quarterly cash dividends of \$0.07 per share and \$0.09 per share, respectively. In January 2012, our Board of Directors approved a quarterly cash dividend of \$0.11 per share payable on March 1, 2012 to stockholders of record as of the close of business on February 16, 2012. Any future declaration and payment of dividends will be at the sole discretion of the Company's Board of Directors. The Board of Directors may take into account such matters as general business conditions, the Company's financial results, capital requirements, contractual, legal, and regulatory restrictions on the payment of dividends to the Company's stockholders or by the Company's subsidiaries to the parent and any such other factors as the Board of Directors may deem relevant.

 **Recent Sales of Unregistered Securities**

None.



**Table of Contents****Index to Financial Statements****Securities Authorized for Issuance Under Equity Compensation Plans**

Please see the section entitled "Equity Compensation Plan Information" in Item 12.

**Issuer Purchases of Equity Securities**

During the quarter ended December 31, 2011, we repurchased the following shares of common stock:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Dollar Value of Shares That May Yet Be Purchased Under the Plans (In thousands)
October 1, 2011 - October 31, 2011		\$		\$
November 1, 2011 - November 30, 2011	60,173	19.07		
December 1, 2011 - December 31, 2011	237,998	29.14	237,998	28,065
	298,171	\$ 27.11	237,998	

In October 2011, the Board of Directors of the Company authorized a share repurchase program for up to \$35.0 million of the Company's common stock. As of December 31, 2011, a total of 237,998 shares were repurchased at an aggregate cost of \$6.9 million. Shares repurchased under the program will be held in treasury for future use.

During the three months ended December 31, 2011, a total of 40,325 shares were surrendered by employees to us to satisfy the exercise price and employee withholding tax obligations upon the exercise of stock options at an average price of \$28.45 per share, and 19,848 unvested restricted shares were purchased and cancelled upon the termination of employment or failure to meet performance conditions at par value of \$.003 per share.

**Table of Contents**

**Index to Financial Statements**

**STOCK PERFORMANCE GRAPH**

The following graph shows a comparison from December 31, 2006 through December 31, 2011 of the cumulative total return for (i) our common stock, (ii) the NASDAQ Composite Index and (iii) the Dow Jones US Financial Services Index.

The figures in this graph assume an initial investment of \$100 in our common stock and in each index on December 31, 2006, and that all quarterly dividends were reinvested. The returns illustrated below are based on historical results during the period indicated and should not be considered indicative of future stockholder returns.

**Table of Contents****Index to Financial Statements****Item 6. Selected Financial Data.**

The selected statements of operations data for each of the years ended December 31, 2011, 2010 and 2009 and the selected balance sheet data as of December 31, 2011 and 2010 have been derived from our audited financial statements included elsewhere in this Form 10-K. The selected statements of operations data for the years ended December 31, 2008 and 2007, and the balance sheet data as of December 31, 2009, 2008 and 2007 have been derived from our audited financial statements not included in this Form 10-K.

	2011	Year Ended December 31,			2007
		2010	2009	2008	
		(In thousands, except per share amounts)			
<b>Statements of Operations Data:</b>					
<b>Revenues</b>					
<b>Commissions</b>					
U.S. high-grade(1)	\$ 108,931	\$ 83,796	\$ 62,557	\$ 46,547	\$ 52,541
Eurobond	17,799	18,656	20,339	18,146	18,828
Other(2)	28,714	19,728	13,236	8,835	8,845
<b>Total commissions</b>	<b>155,444</b>	<b>122,180</b>	<b>96,132</b>	<b>73,528</b>	<b>80,214</b>
Technology products and services(3)	14,310	13,648	9,778	8,555	742
Information and user access fees	7,199	6,681	6,252	6,025	5,877
Interest income	1,229	1,192	1,222	3,478	5,242
Other(4)	2,917	2,527	1,055	1,499	1,568
<b>Total revenues</b>	<b>181,099</b>	<b>146,228</b>	<b>114,439</b>	<b>93,085</b>	<b>93,643</b>
<b>Expenses</b>					
Employee compensation and benefits	58,786	56,446	50,274	43,810	43,051
Depreciation and amortization	6,781	6,350	6,790	7,879	7,170
Technology and communications	10,912	9,982	8,436	8,311	7,463
Professional and consulting fees	10,138	8,503	6,869	8,171	7,639
Occupancy	2,921	2,997	3,129	2,891	3,275
Marketing and advertising	4,882	3,075	2,882	3,032	1,905
General and administrative	7,946	7,965	6,010	6,157	5,889
<b>Total expenses</b>	<b>102,366</b>	<b>95,318</b>	<b>84,390</b>	<b>80,251</b>	<b>76,392</b>
Income before income taxes	78,733	50,910	30,049	12,834	17,251
Provision for income taxes	31,029	19,482	13,947	4,935	6,931
<b>Net income</b>	<b>\$ 47,704</b>	<b>\$ 31,428</b>	<b>\$ 16,102</b>	<b>\$ 7,899</b>	<b>\$ 10,320</b>
<b>Net income per common share:</b>					
Basic	\$ 1.29	\$ 0.86	\$ 0.44	\$ 0.23	\$ 0.32
Diluted	\$ 1.20	\$ 0.80	\$ 0.42	\$ 0.22	\$ 0.30
<b>Weighted average number of shares of common stock outstanding:</b>					
Basic	37,006	33,159	33,264	32,831	32,293
Diluted	39,608	39,051	38,082	35,737	34,453
Cash dividends per share	\$ 0.36	\$ 0.28	\$ 0.07	\$	\$

**Table of Contents****Index to Financial Statements**

	2011	2010	As of December 31,		2007
			2009	2008	
			(In thousands)		
<b>Balance Sheet Data:</b>					
Cash and cash equivalents and securities available-for-sale	\$ 247,730	\$ 197,546	\$ 174,338	\$ 142,550	\$ 124,290
Working capital(5)	253,907	191,482	170,060	137,390	120,656
Total assets	349,458	299,521	277,286	246,428	198,366

- (1) U.S. high-grade commissions include monthly distribution fees and commissions from the trading of U.S. high-grade bonds.
- (2) Other commissions consist primarily of commissions from the trading of emerging markets bonds, crossover and high-yield bonds and agency bonds.
- (3) Technology products and services include software licenses, maintenance and support services and professional consulting services. Revenues are principally derived from the acquisition of Greenline in March 2008.
- (4) Other revenues consist primarily of telecommunications line charges to broker-dealer clients, initial set-up fees and other miscellaneous revenues.
- (5) Working capital is defined as current assets minus current liabilities. Current assets consist of cash and cash equivalents, securities available-for-sale, accounts receivable and prepaid and other expenses. Current liabilities consist of accrued employee compensation, deferred revenue, and accounts payable, accrued expenses and other liabilities.

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**Table of Contents**

**Index to Financial Statements**

**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

*You should read the following discussion and analysis of our financial condition and results of operations in conjunction with Selected Financial Data and our consolidated financial statements and related notes included elsewhere in this Form 10-K. In addition to historical information, this discussion and analysis contains forward-looking statements relating to future events and the future performance of MarketAxess that are based on our current expectations, assumptions, estimates and projections about us and our industry. These forward-looking statements involve risks and uncertainties. Our actual results and timing of various events could differ materially from those anticipated in such forward-looking statements as a result of a variety of factors, as more fully described in this section, in Item 1A. Risk Factors and elsewhere in this Form 10-K. We undertake no obligation to update publicly any forward-looking statements for any reason, even if new information becomes available or other events occur in the future.*

**Executive Overview**

MarketAxess operates a leading electronic trading platform that allows investment industry professionals to efficiently trade corporate bonds and other types of fixed-income instruments. Our over 850 active institutional investor clients (firms that executed at least one trade in U.S. or European fixed-income securities through our electronic trading platform during 2011) include investment advisers, mutual funds, insurance companies, public and private pension funds, bank portfolios, broker-dealers and hedge funds. Our 87 broker-dealer market-maker clients provide liquidity on the platform and include most of the leading broker-dealers in global fixed-income trading. The Company also executes certain bond transactions between and among institutional investor and broker-dealer clients on a riskless principal basis by serving as counterparty to both the buyer and the seller in matching back-to-back trades, which then settle through a third-party clearing organization. Through 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. 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, asset-backed and preferred securities and credit default swaps.

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.

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

to innovate and efficiently add new functionality and product offerings to the MarketAxess platform that we believe will help to increase our market share with existing clients, as well as expand our client base;

## **Table of Contents**

### **Index to Financial Statements**

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;

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 our ability to grow volumes and revenues will largely depend on our performance with respect to these factors.

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

#### ***Regulatory Environment***

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

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



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**Table of Contents**

**Index to Financial Statements**

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.

In July, 2010, the Dodd-Frank Act was signed into law, marking the greatest change to financial supervision since the 1930's. U.S. financial regulators are in the midst of an intense period of rulemaking that is required to implement the provisions of the Dodd-Frank Act, and market participants will need to make strategic decisions in an environment of regulatory uncertainty. Among the most significant aspects of the derivatives section of the Dodd-Frank Act are mandatory clearing of certain derivatives transactions (swaps) through regulated central clearing organizations and mandatory trading of those swaps through either regulated exchanges or swap execution facilities, in each case, subject to certain key exceptions. As with other parts of the Dodd-Frank Act, many of the details of the new regulatory regime relating to swaps are left to the regulators to determine through rulemaking. While we expect that the CFTC and SEC will adopt rules that detail the new regulatory regime regarding the swaps market place in 2012, no assurance can be given regarding when, or whether, such rules will be finalized and implemented. Subject to such rulemaking, we currently expect to establish and operate a swap execution facility and/or a security-based swap execution facility.

The proposed Volcker Rule could adversely affect our bank-affiliated broker-dealer clients' ability to make markets in a variety of fixed-income securities, thereby negatively impacting the level of liquidity and pricing available on our trading platform.

Similar to the U.S., regulatory bodies in Europe and elsewhere are developing new rules for derivatives trading. For example, the European Commission has issued three consultation papers intended to help define certain terms in the new OTC derivatives landscape and, in 2010, proposed legislation that mandates, among other things, central clearing of standardized CDS contracts. Although the European regulators have not yet adopted such legislation, our expectation is that the EU will, in line with the U.S., require central clearing of standardized CDS contracts and increase transparency through enhanced trade reporting requirements. However, it is not yet clear whether there will be any requirement in the EU to trade standardized CDS contracts on regulated exchanges or trading platforms.

***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 five patents in 2009 covering our most significant trading protocols and other aspects of our trading system technology, we received two additional patents during 2010 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;

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**Table of Contents**

**Index to Financial Statements**

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.

***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.

*U.S. High-Grade Corporate Bond Commissions.* Our U.S. high-grade corporate bond fee plans for fully electronic trades generally incorporate monthly distribution fees and variable transaction fees billed to our broker-dealer clients on a monthly basis. Certain dealers participate in fee programs that do not contain monthly distribution fees and instead incorporate additional per transaction execution fees and minimum monthly fee commitments. Under the fee plans, we electronically add the transaction fee to the spread quoted by the broker-dealer client.

*Eurobond Commissions.* Similar to the U.S. high-grade plans, our European fee plan incorporates monthly distribution fees as well as variable transaction fees. In June 2010, we launched a click-to-trade protocol in the European market. Click-to-trade is offered alongside our request-for-quote product and consists of streamed indicative pricing in credit and rates products. Clients have the ability to request a trade at the displayed price with the indicated dealer. In connection with the launch, the Eurobond fee plan was revised and a standard commission rate was established across most types of bonds. Prior to this change, the variable transaction fee was dependent on the type of bond traded and the maturity of the issue.

*Other Commissions.* Commissions for other bond, asset-backed and preferred securities 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.

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

## **Table of Contents**

### **Index to Financial Statements**

#### ***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.

*Information and User Access Fees.* We charge information services fees for Corporate BondTicker™ 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 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, initial set-up fees and other miscellaneous revenues.

#### ***Expenses***

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

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

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

## **Table of Contents**

### **Index to Financial Statements**

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

### **Critical Accounting Estimates**

This Management's Discussion and Analysis of Financial Condition and Results of Operations discusses our Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States, also referred to as U.S. GAAP. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of income and expenses during the reporting periods. We base our estimates and judgments on historical experience and on various other factors that we believe are reasonable under the circumstances. Actual results may differ from these estimates under varying assumptions or conditions. Note 2 of the Notes to our Consolidated Financial Statements includes a summary of the significant accounting policies and methods used in the preparation of our Consolidated Financial Statements.

#### *Use of Estimates*

On an ongoing basis, management evaluates its estimates and judgments, particularly as they relate to accounting policies that management believes are critical. That is, these accounting policies are most important to the portrayal of our financial condition and results of operations and they require management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

#### *Allowance for Doubtful Accounts*

All accounts receivable have contractual maturities of less than one year and are derived from trading-related fees and commissions and revenues from products and services. We continually monitor collections and payments from our customers and maintain 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.

#### *Software Development Costs*

We capitalize 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. We capitalize 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. We review the amounts capitalized for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable.

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**Table of Contents**

**Index to Financial Statements**

***Revenue Recognition***

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.

*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 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. 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 the commission through the difference in price between the two back-to-back trades.

*Technology products and services.* We generate 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. We generally sell software licenses and PCS together as part of multiple-element arrangements. We also enter into contracts for technology integration consulting services unrelated to any software product.

For arrangements that include multiple elements, generally software licenses and PCS, we allocate and defer revenue for the undelivered items based on vendor specific objective evidence (VSOE) of the fair value of the undelivered elements and recognize the difference between the total arrangement fee and the amount deferred for the undelivered items as license revenue. The VSOE of each element is based on historical evidence of stand-alone sales of these elements to third parties or the stated renewal rate for the undelivered elements. When VSOE does not exist for undelivered items, the entire arrangement fee is recognized ratably over the performance period. For PCS, the term is typically one year and revenue is recognized over the duration of the arrangement on a straight-line basis.

Professional consulting services are generally separately priced and are typically not essential to the functionality of the 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.

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. Revenues recognized in excess of billings are recorded as unbilled services within other assets. Billings in excess of revenues recognized are recorded as deferred revenues until revenue recognition criteria are met.

*Initial set-up fees.* We enter into agreements with our broker-dealer clients pursuant to which we provide access to our 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, if any, varies by agreement. Revenue is recognized over the initial term of the agreement, which is generally two years.

## **Table of Contents**

### **Index to Financial Statements**

#### ***Stock-Based Compensation***

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

#### ***Income Taxes***

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

#### ***Business Combinations, Goodwill and Intangibles Assets***

Business combinations are accounted for under the purchase method. 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.

We perform an impairment review of goodwill 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. Intangible assets are assessed for impairment when events or circumstances indicate a possible impairment.

#### ***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.

### **Results of Operations**

#### ***Year Ended December 31, 2011 Compared to Year Ended December 31, 2010***

##### *Overview*

Total revenues increased by \$34.9 million or 23.8% to \$181.1 million for the year ended December 31, 2011 from \$146.2 million for the year ended December 31, 2010. This increase in total revenues was primarily due to an increase in commissions of \$33.3 million.

Total expenses increased by \$7.0 million or 7.4% to \$102.4 million for the year ended December 31, 2011 from \$95.3 million for the year ended December 31, 2010. The increase was primarily due to higher employee compensation and benefits of \$2.3 million, professional and consulting fees of \$1.6 million and marketing and advertising costs of \$1.8 million.

**Table of Contents****Index to Financial Statements**

Income before taxes increased by \$27.8 million or 54.7% to \$78.7 million for the year ended December 31, 2011 from \$50.9 million for the year ended December 31, 2010. Net income increased by \$16.3 million or 51.8% to \$47.7 million for the year ended December 31, 2011 from \$31.4 million for the year ended December 31, 2010.

**Revenues**

Our revenues for the years ended December 31, 2011 and 2010, and the resulting dollar and percentage changes, were as follows:

	2011		Year Ended December 31, 2010		\$ Change	% Change
	\$	% of Revenues	\$	% of Revenues		
			(\$ in thousands)			
Commissions	\$ 155,444	85.8%	\$ 122,180	83.6%	\$ 33,264	27.2%
Technology products and services	14,310	7.9	13,648	9.3	662	4.9
Information and user access fees	7,199	4.0	6,681	4.6	518	7.8
Investment income	1,229	0.7	1,192	0.8	37	3.1
Other	2,917	1.6	2,527	1.7	390	15.4
Total revenues	\$ 181,099	100.0%	\$ 146,228	100.0%	\$ 34,871	23.8%

*Commissions.* Our commission revenues for the years ended December 31, 2011 and 2010, and the resulting dollar and percentage changes, were as follows:

	2011	Year Ended December 31,		% Change
		2010	\$ Change	
		(\$ in thousands)		
Distribution fees				
U.S. high-grade	\$ 49,580	\$ 37,467	\$ 12,113	32.3%
Eurobond	14,149	12,693	1,456	11.5
Total distribution fees	63,729	50,160	13,569	27.1
Variable transaction fees				
U.S. high-grade	59,351	46,329	13,022	28.1
Eurobond	3,650	5,963	(2,313)	(38.8)
Other	28,714	19,728	8,986	45.5
Total transaction fees	91,715	72,020	19,695	27.3
Total commissions	\$ 155,444	\$ 122,180	\$ 33,264	27.2%

The \$13.6 million increase in distribution fees for the year ended December 31, 2011 compared to the year ended December 31, 2010 was due principally to the migration of seven U.S. broker-dealer market makers in the prior 15 months from an all-variable fee plan to a plan that incorporates a combination of a monthly distribution fee and variable transaction fees and the addition of several new U.S. and European broker-dealer market makers to the platform.

Due in part to the continuing sovereign debt concerns and competitive environment in Europe, trading volume in our Eurobond product has significantly decreased in 2010 and 2011. We intend to reduce the monthly distribution fees paid by our European broker-dealer market makers effective March 1, 2012, but leave dealer variable transaction fees unchanged. We expect that Eurobond distribution fees will decline by

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approximately \$0.5 million per month. Despite our efforts, there is no assurance that Eurobond trading volumes and revenues will increase as a result of this change. It is possible that our broker-dealer clients could respond to this new fee plan by either reducing the amount of their business conducted on our platform or terminating their contractual relationship with us, which could have an adverse impact on our fees.



**Table of Contents****Index to Financial Statements**

The following table shows the extent to which the increase in commissions for the year ended December 31, 2011 was attributable to changes in transaction volumes, variable transaction fees per million and distribution fees:

	U.S. High-Grade	Change from Year Ended December 31, 2010		Total
		Eurobond	Other	
		(In thousands)		
Volume increase (decrease)	\$ 15,259	\$ (1,580)	\$ 10,154	\$ 23,833
Variable transaction fee per million (decrease)	(2,237)	(733)	(1,168)	(4,138)
Distribution fees increase	12,113	1,456		13,569
Total commissions increase (decrease)	\$ 25,135	\$ (857)	\$ 8,986	\$ 33,264

Our trading volume for each of the years presented was as follows:

	2011	Year Ended December 31,		% Change
		2010	\$ Change	
<b>Trading Volume Data (in millions)</b>				
U.S. high-grade fixed rate	\$ 311,758	\$ 235,698	\$ 76,060	32.3%
U.S. high-grade floating rate	11,802	7,698	4,104	53.3
Total U.S. high-grade	323,560	243,396	80,164	32.9
Eurobond	36,933	50,251	(13,318)	(26.5)
Other	164,514	108,610	55,904	51.5
Total	\$ 525,007	\$ 402,257	\$ 122,750	30.5%
Number of U.S. Trading Days	250	250		
Number of U.K. Trading Days	251	253		

For volume reporting purposes, transactions in foreign currencies are converted to U.S. dollars at average monthly rates. The 32.3% increase in U.S. high-grade volume was principally due to an increase in the Company's estimated market share of total U.S. high-grade corporate bond volume as reported by FINRA TRACE from 8.4% for the year ended December 31, 2010 to 11.1% for the year ended December 31, 2011. Estimated FINRA TRACE U.S. high-grade volume for the year ended December 31, 2011 was \$2.9 trillion and increased approximately 1.0% from the year ended December 31, 2010. Our Eurobond volumes decreased by 26.5% for the year ended December 31, 2011 compared to the year ended December 31, 2010. We believe that the decline in Eurobond volumes was due, in part, to continuing sovereign debt concerns which negatively impacted market conditions and the competitive environment in Europe. Other volume increased by 51.5% for the year ended December 31, 2011 compared to the year ended December 31, 2010, primarily due to higher agency, emerging markets and high-yield bond volumes.

Our average variable transaction fee per million for the years ended December 31, 2011 and 2010 was as follows:

	Year Ended December 31,	
	2011	2010
<b>Average Variable Transaction Fee Per Million</b>		
U.S. high-grade fixed rate	\$ 190	\$ 196

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U.S. high-grade floating rate	22	28
Total U.S. high-grade	183	190
Eurobond	99	119
Other	175	182
Total	175	179



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**Table of Contents****Index to Financial Statements**

performance shares related to the June 2011 resignation of the Company's President. The total number of employees increased to 232 as of December 31, 2011 from 227 as of December 31, 2010. As a percentage of total revenues, employee compensation and benefits expense decreased to 32.5% for the year ended December 31, 2011 from 38.6% for the year ended December 31, 2010.

*Depreciation and Amortization.* Depreciation and amortization expense increased by \$0.4 million or 6.8% to \$6.8 million for the year ended December 31, 2011 from \$6.4 million for the year ended December 31, 2010. The increase was primarily due to higher depreciation of production and office hardware costs of \$0.4 million. For the years ended December 31, 2011 and 2010, we capitalized \$4.1 million and \$1.9 million, respectively, of software development costs, and \$3.2 million and \$5.2 million, respectively, of equipment and leasehold improvements. The 2010 equipment and leasehold improvement expenditures included \$3.0 million associated with the move of our corporate offices to new premises in New York City in the first quarter of 2010.

*Technology and Communications.* Technology and communications expense increased by \$0.9 million or 9.3% to \$10.9 million for the year ended December 31, 2011 from \$10.0 million for the year ended December 31, 2010. The increase was primarily attributable to higher expenses associated with production data and telecommunication costs.

*Professional and Consulting Fees.* Professional and consulting fees increased by \$1.6 million or 19.2% to \$10.1 million for the year ended December 31, 2011 from \$8.5 million for the year ended December 31, 2010. The increase was principally due to higher technology consulting costs of \$1.2 million and legal expense, principally in connection with proposed swap execution facility-related regulation, of \$0.9 million.

*Occupancy.* Occupancy costs decreased by \$0.1 million or 2.5% to \$2.9 million for the year ended December 31, 2011 from \$3.0 million for the year ended December 31, 2010.

*Marketing and Advertising.* Marketing and advertising expense increased by \$1.8 million or 58.8% to \$4.9 million for the year ended December 31, 2011 from \$3.1 million for the year ended December 31, 2010. The increase was principally due to higher advertising costs of \$0.9 million associated with our credit default swaps trading capabilities and travel and entertainment expenses related to sales activities of \$0.6 million.

*General and Administrative.* General and administrative expense was \$7.9 million for each of the years ended December 31, 2011 and 2010. During 2011, a credit of \$1.0 million resulting from the settlement of a reimbursement claim on previously paid sales tax was offset by a higher charge for doubtful accounts of \$0.6 million and a write-off of a minority investment of \$0.6 million. During the fourth quarter of 2011, MF Global Inc., a broker-dealer market maker on our platform, entered a liquidation proceeding. In connection with the proceeding, we recorded a 100% allowance against outstanding receivables amounting to \$0.9 million.

*Provision for Income Tax*

We recorded an income tax provision of \$31.0 million and \$19.5 million for the years ended December 31, 2011 and 2010, respectively. The increase in the tax provision was primarily attributable to the \$27.8 million increase in pre-tax income. With the exception of certain foreign and state and local taxes, the provision for income taxes was largely a non-cash expense since we had net operating loss and tax credit carryforwards available to offset the majority of U.S. taxable income. We fully utilized the balance of our unrestricted U.S. federal net operating loss carryforward during 2011, which we expect will result in an increase in cash paid for income taxes in subsequent years.

Our consolidated effective tax rate for the year ended December 31, 2011 was 39.4% compared to 38.3% for the year ended December 31, 2010. 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.

**Table of Contents****Index to Financial Statements**

As of December 31, 2011, we had restricted U.S. federal net operating loss carryforwards of approximately \$12.3 million. The utilization of our U.S. net operating loss carryforwards is subject to an annual limitation of approximately \$2.1 million as determined by Section 382 of the Internal Revenue Code.

***Year Ended December 31, 2010 Compared to Year Ended December 31, 2009****Overview*

Total revenues increased by \$31.8 million or 27.8% to \$146.2 million for the year ended December 31, 2010 from \$114.4 million for the year ended December 31, 2009. This increase in total revenues was primarily due to increases in commissions of \$26.0 million and in technology products and services revenues of \$3.9 million and other income of \$1.5 million.

Total expenses increased by \$10.9 million or 12.9% to \$95.3 million for the year ended December 31, 2010 from \$84.4 million for the year ended December 31, 2009. The increase was primarily due to higher employee compensation and benefits of \$6.2 million, general and administrative expense of \$2.0 million, professional and consulting fees of \$1.6 million and technology and communication costs of \$1.5 million.

Income before taxes increased by \$20.9 million or 69.4% to \$50.9 million for the year ended December 31, 2010 from \$30.0 million for the year ended December 31, 2009. Net income increased by \$15.3 million or 95.2% to \$31.4 million for the year ended December 31, 2010, from \$16.1 million for the year ended December 31, 2009.

*Revenues*

Our revenues for the years ended December 31, 2010 and 2009, and the resulting dollar and percentage changes, were as follows:

	2010		Year Ended December 31, 2009		\$ Change	% Change
	\$	% of Revenues	\$ (\$ in thousands)	% of Revenues		
Commissions	\$ 122,180	83.6%	\$ 96,132	84.0%	\$ 26,048	27.1%
Technology products and services	13,648	9.3	9,778	8.5	3,870	39.6
Information and user access fees	6,681	4.6	6,252	5.5	429	6.9
Investment income	1,192	0.8	1,222	1.1	(30)	(2.5)
Other	2,527	1.7	1,055	0.9	1,472	139.5
Total revenues	\$ 146,228	100.0%	\$ 114,439	100.0%	\$ 31,789	27.8%

**Table of Contents****Index to Financial Statements**

*Commissions.* Our commission revenues for the years ended December 31, 2010 and 2009, and the resulting dollar and percentage changes, were as follows:

	Year Ended December 31,			
	2010	2009	\$ Change (\$ in thousands)	% Change
<b>Distribution fees</b>				
U.S. high-grade	\$ 37,467	\$ 30,831	\$ 6,636	21.5%
Eurobond	12,693	12,526	167	1.3
<b>Total distribution fees</b>	<b>50,160</b>	<b>43,357</b>	<b>6,803</b>	<b>15.7</b>
<b>Variable transaction fees</b>				
U.S. high-grade	46,329	31,726	14,603	46.0
Eurobond	5,963	7,813	(1,850)	(23.7)
Other	19,728	13,236	6,492	49.0
<b>Total transaction fees</b>	<b>72,020</b>	<b>52,775</b>	<b>19,245</b>	<b>36.5</b>
<b>Total commissions</b>	<b>\$ 122,180</b>	<b>\$ 96,132</b>	<b>\$ 26,048</b>	<b>27.1%</b>

The \$6.8 million increase in distribution fees for the year ended December 31, 2010 compared to the year ended December 31, 2009 was due principally to the migration of several U.S. broker-dealer market makers from an all-variable fee plan to a plan that incorporates a combination of a monthly distribution fee and variable transaction fees.

The following table shows the extent to which the increase in commissions for the year ended December 31, 2010 was attributable to changes in transaction volumes, variable transaction fees per million and distribution fees:

	Change from Year Ended December 31, 2009			
	U.S. High-Grade	Eurobond	Other	Total
	(In thousands)			
Volume increase (decrease)	\$ 11,865	\$ (898)	\$ 8,759	\$ 19,725
Variable transaction fee per million increase (decrease)	2,738	(952)	(2,267)	(480)
Distribution fees increase	6,636	167		6,803
<b>Total commissions increase (decrease)</b>	<b>\$ 21,239</b>	<b>\$ (1,683)</b>	<b>\$ 6,492</b>	<b>\$ 26,048</b>

Our trading volume for each of the years presented was as follows:

	Year Ended December 31,			
	2010	2009	\$ Change	% Change
<b>Trading Volume Data (in millions)</b>				
U.S. high-grade fixed rate	\$ 235,698	\$ 170,519	\$ 65,179	38.2%
U.S. high-grade floating rate	7,698	6,629	1,069	16.1

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Total U.S. high-grade	243,396	177,148	66,248	37.4
Eurobond	50,251	56,778	(6,527)	(11.5)
Other	108,610	65,360	43,250	66.2
<b>Total</b>	<b>\$ 402,257</b>	<b>\$ 299,286</b>	<b>\$ 102,971</b>	<b>34.4%</b>
Number of U.S. Trading Days	250	250		
Number of U.K. Trading Days	253	253		

**Table of Contents****Index to Financial Statements**

For volume reporting purposes, transactions in foreign currencies are converted to U.S. dollars at average monthly rates. The 37.4% increase in U.S. high-grade volume was principally due to an increase in the Company's estimated market share of total U.S. high-grade corporate bond volume as reported by FINRA TRACE from 6.2% for the year ended December 31, 2009 to 8.4% for the year ended December 31, 2010. Estimated FINRA TRACE U.S. high-grade volume increased by less than 1% to \$2.9 trillion for the year ended December 31, 2010. Our Eurobond volumes decreased by 11.5% for the year ended December 31, 2010 compared to the year ended December 31, 2009. We believe that the decline in Eurobond volumes was due, in part, to continuing sovereign debt concerns which negatively impacted market conditions. Other volume increased by 66.2% for the year ended December 31, 2010 compared to the year ended December 31, 2009, primarily due to higher agencies and emerging markets volume.

Our average variable transaction fee per million for the years ended December 31, 2010 and 2009 was as follows:

	<b>Year Ended December 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>Average Variable Transaction Fee Per Million</b>		
U.S. high-grade fixed rate	\$ 196	\$ 185
U.S. high-grade floating rate	28	24
Total U.S. high-grade	190	179
Eurobond	119	138
Other	182	203
<b>Total</b>	<b>179</b>	<b>176</b>

The U.S. high-grade average variable transaction fee per million improved from \$179 per million for the year ended December 31, 2009 to \$190 per million for the year ended December 31, 2010, primarily due to an increase in the percentage of volume derived from broker-dealer clients on an all-variable plan. Eurobond average variable transaction fee per million decreased from \$138 per million for the year ended December 31, 2009 to \$119 per million for the year ended December 31, 2010. In June 2010, we launched a click-to-trade protocol in the European market. In connection with the launch, the Eurobond fee plan was revised generally downward. Other average variable transaction fee per million decreased from \$203 per million for the year ended December 31, 2009 to \$182 per million for the year ended December 31, 2010, primarily due to a higher percentage of volume in products that carry lower fees per million, principally agency bonds.

*Technology Products and Services.* Technology products and services revenues increased by \$3.9 million or 39.6% to \$13.6 million for the year ended December 31, 2010 from \$9.8 million for the year ended December 31, 2009. The increase was primarily a result of higher technology integration consulting services and license fees.

*Information and User Access Fees.* Information and user access fees increased by \$0.4 million or 6.9% to \$6.7 million for the year ended December 31, 2010 from \$6.3 million for the year ended December 31, 2009.

*Investment Income.* Investment income was \$1.2 million for the each of the years ended December 31, 2010 and December 31, 2009.

*Other.* Other revenues increased by \$1.5 million or 139.5% to \$2.5 million for the year ended December 31, 2010 from \$1.1 million for the year ended December 31, 2009. The increase was primarily a result of higher initial set-up fees from broker-dealer clients and a gain on the sale of a U.S. Treasury bill investment.





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**Table of Contents**

**Index to Financial Statements**

*General and Administrative.* General and administrative expense increased by \$2.0 million or 32.5% to \$8.0 million for the year ended December 31, 2010 from \$6.0 million for the year ended December 31, 2009. The increase was primarily due to higher charitable contributions of \$0.3 million, general travel and entertainment expense of \$0.3 million, board of directors expenses of \$0.3 million and registration fees of \$0.3 million.

*Provision for Income Tax*

We recorded an income tax provision of \$19.5 million and \$13.9 million for the years ended December 31, 2010 and 2009, respectively. The increase in the tax provision was primarily attributable to the \$20.9 million increase in pre-tax income. With the exception of the payment of certain foreign and state and local 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 year ended December 31, 2010 was 38.3% compared to 46.4% for the year ended December 31, 2009. During 2009, we reduced the tax rates used for recording the deferred tax assets to reflect the tax rates anticipated to be in effect when the temporary differences are expected to reverse, resulting in a decrease in the deferred tax asset and an increase in tax expense of \$1.6 million. The 2010 effective tax rate reflects the 2009 refinement in our state and local tax apportionment methodology, which resulted in a lower 2010 state income tax rate. 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.

As of December 31, 2010, we had U.S. federal net operating loss carryforwards of \$29.8 million and tax credit carryforwards of \$6.0 million for income tax purposes. The net deferred tax asset of \$19.8 million at December 31, 2010 included a valuation allowance of \$0.2 million arising from certain tax credit and foreign and state tax loss carryforwards. This valuation allowance was deemed appropriate due to available evidence indicating that some of the deferred tax assets might not be realized in future years.

***Quarterly Results of Operations***

Our quarterly results have varied significantly as a result of:

changes in trading volume due to market conditions, changes in the number of trading days in certain quarters, and seasonality effects caused by slow-downs in trading activity during certain periods;

changes in the number of broker-dealers and institutional investors using our trading platform as well as variation in usage by existing clients;

expansion of the products we offer to our clients; and

variance in our expenses, particularly employee compensation and benefits.

**Table of Contents****Index to Financial Statements**

The following table sets forth certain consolidated quarterly income statement data for the eight quarters ended December 31, 2011. In our opinion, this unaudited information has been prepared on a basis consistent with our annual financial statements and includes all adjustments (consisting only of normal recurring adjustments) necessary for a fair statement of the unaudited quarterly data. This information should be read in conjunction with our Consolidated Financial Statements and related Notes included in this Annual Report on Form 10-K. The results of operations for any quarter are not necessarily indicative of results that we may achieve for any subsequent periods.

	Dec 31, 2011	Sep 30, 2011	Jun 30, 2011	Three Months Ended			Jun 30, 2010	Mar 31, 2010
				Mar 31, 2011	Dec 31, 2010	Sep 30, 2010		
	(In thousands, except per share data)							
<b>Revenues</b>								
Commissions								
U.S. high-grade	\$ 27,706	\$ 28,017	\$ 26,830	\$ 26,378	\$ 22,234	\$ 21,537	\$ 20,249	\$ 19,776
Eurobond	4,133	4,443	4,606	4,617	4,420	4,075	4,669	5,492
Other	6,922	7,362	7,640	6,790	5,607	5,540	4,542	4,039
Total commissions	38,761	39,822	39,076	37,785	32,261	31,152	29,460	29,307
Technology products and services	3,439	3,779	3,984	3,108	3,778	3,455	3,251	3,164
Information and user access fees	1,960	1,831	1,719	1,689	1,722	1,603	1,722	1,634
Interest income	317	303	310	299	285	301	315	291
Other	658	829	702	728	559	902	578	488
Total revenues(1)	45,135	46,564	45,791	43,609	38,605	37,413	35,326	34,884
<b>Expenses</b>								
Employee compensation and benefits	13,707	13,707	15,104	16,268	13,998	14,326	14,189	13,933
Depreciation and amortization	1,793	1,799	1,627	1,562	1,552	1,560	1,622	1,616
Technology and communications	2,916	2,772	2,724	2,500	2,669	2,543	2,353	2,417
Professional and consulting fees	2,354	2,247	2,665	2,872	2,134	2,241	1,990	2,138
Occupancy	726	721	708	766	646	706	707	938
Marketing and advertising	1,380	1,280	1,248	974	1,009	679	759	628
General and administrative	3,393	1,742	1,810	1,001	2,152	1,834	1,850	2,129
Total expenses	26,269	24,268	25,886	25,943	24,160	23,889	23,470	23,799
Income before income taxes	18,866	22,296	19,905	17,666	14,445	13,524	11,856	11,085
Provision for income taxes	7,323	8,852	7,968	6,886	5,498	4,913	4,687	4,384
Net income	\$ 11,543	\$ 13,444	\$ 11,937	\$ 10,780	\$ 8,947	\$ 8,611	\$ 7,169	\$ 6,701
Net income per common share:								
Basic	\$ 0.31	\$ 0.36	\$ 0.32	\$ 0.30	\$ 0.25	\$ 0.24	\$ 0.19	\$ 0.18
Diluted	\$ 0.29	\$ 0.34	\$ 0.30	\$ 0.27	\$ 0.23	\$ 0.22	\$ 0.18	\$ 0.17

(1) Of these amounts, \$2,092, \$2,011, \$1,633, \$1,808, \$1,522, \$1,455, \$1,456 and \$1,435 respectively, were from related parties.

**Table of Contents****Index to Financial Statements**

The following tables set forth trading volume and average variable transaction fee per million traded for the eight quarters ended December 31, 2011.

	Dec 31, 2011	Sep 30, 2011	Jun 30, 2011	Three Months Ended			Jun 30, 2010	Mar 31, 2010
				Mar 31, 2011	Dec 31, 2010	Sep 30, 2010		
(In millions)								
<b>Trading Volume Data</b>								
U.S. high-grade fixed rate	\$ 73,181	\$ 79,233	\$ 77,077	\$ 82,267	\$ 61,982	\$ 59,221	\$ 55,829	\$ 58,666
U.S. high-grade floating rate	2,278	2,761	3,825	2,938	1,346	1,166	2,341	2,845
Total U.S. high-grade	75,459	81,994	80,902	85,205	63,328	60,387	58,170	61,511
Eurobond	8,042	7,580	9,998	11,313	10,780	10,712	12,739	16,019
Other	41,699	42,092	42,061	38,661	30,215	29,351	27,372	21,672
Total	\$ 125,200	\$ 131,666	\$ 132,961	\$ 135,179	\$ 104,323	\$ 100,450	\$ 98,281	\$ 99,202

	Dec 31, 2011	Sep 30, 2011	Jun 30, 2011	Three Months Ended			Jun 30, 2010	Mar 31, 2010
				Mar 31, 2011	Dec 31, 2010	Sep 30, 2010		
<b>Average Variable Transaction Fee Per Million</b>								
U.S. high-grade fixed rate	\$ 195	\$ 195	\$ 192	\$ 178	\$ 196	\$ 208	\$ 196	\$ 183
U.S. high-grade floating rate	\$ 27	\$ 24	\$ 22	\$ 17	\$ 36	\$ 32	\$ 23	\$ 27
Total U.S. high-grade	\$ 190	\$ 189	\$ 184	\$ 172	\$ 192	\$ 205	\$ 189	\$ 175
Eurobond	\$ 92	\$ 108	\$ 95	\$ 101	\$ 101	\$ 93	\$ 130	\$ 139
Other	\$ 166	\$ 175	\$ 182	\$ 176	\$ 186	\$ 189	\$ 166	\$ 186
Total	\$ 175	\$ 180	\$ 177	\$ 167	\$ 181	\$ 188	\$ 175	\$ 172
Number of U.S. trading days	61	64	63	62	62	64	63	61
Number of U.K. trading days	63	65	60	63	64	65	61	63

**Liquidity and Capital Resources**

During the past three years, we have met our funding requirements through cash on hand and internally generated funds. Cash and cash equivalents and securities available-for-sale totaled \$247.7 million at December 31, 2011. Other than a capital lease obligation amounting to \$0.6 million as of December 31, 2011, we have no long-term or short-term debt and do not maintain bank lines of credit.

Our cash flows were as follows:

	Year Ended December 31,		
	2011	2010	2009
(In thousands)			
Net cash provided by operating activities	\$ 65,478	\$ 64,146	\$ 43,327
Net cash (used in) investing activities	(8,576)	(7,720)	(44,165)
Net cash (used in) financing activities	(11,199)	(33,849)	(2,646)
Effect of exchange rate changes on cash and cash equivalents	(1,077)	(924)	(498)
Net increase (decrease) for the period	\$ 44,626	\$ 21,653	\$ (3,981)

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We define free cash flow as cash flow from operating activities less expenditures for furniture, equipment and leasehold improvements and capitalized software development costs. For the years ended December 31, 2011, 2010 and 2009, free cash flow was \$58.3 million, \$57.0 million and \$36.5 million, respectively. Free cash

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**Table of Contents**

**Index to Financial Statements**

flow is a non-GAAP financial measure. We believe that this non-GAAP financial measure, when taken into consideration with the corresponding GAAP financial measures, is important in gaining an understanding of our financial strength and cash flow generation.

***Cash Flows for the Year Ended December 31, 2011 Compared to Year Ended December 31, 2010***

Net cash provided by operating activities was \$65.5 million for the year ended December 31, 2011 compared to \$64.1 million for the year ended December 31, 2010. The \$1.3 million increase in net cash provided by operating activities was primarily due to an increase in net income of \$16.3 million, offset by an increase in cash used for working capital of \$14.6 million and lower non-cash stock based compensation expense of \$2.1 million. We fully utilized the balance of our unrestricted U.S. federal net operating loss carryforward during 2011, which resulted in an increase in cash paid for income taxes in 2011. During 2011, cash paid for income taxes was \$10.2 million compared to \$2.2 million in 2010.

Net cash used in investing activities was \$8.6 million for the year ended December 31, 2011 compared to \$7.7 million for the year ended December 31, 2010. Net purchases of securities available-for-sale were \$4.9 million in 2011 compared to \$0.6 million in December 31, 2010. Capital expenditures were \$7.2 million and \$7.1 million for the years ended December 31, 2011 and 2010, respectively. Securities and cash provided as collateral decreased by \$3.5 million in 2011.

Net cash used in financing activities was \$11.2 million for the year ended December 31, 2011 compared to \$33.8 million for the year ended December 31, 2010. The \$22.7 million decrease in net cash used in financing activities was principally due to a reduction in repurchases of our common stock of \$23.1 million and an increase in windfall tax benefits on stock-based compensation of \$5.7 million, offset by a decrease of \$2.3 million in proceeds from the exercise of stock options and grants of restricted stock and an increase of \$3.1 million in cash dividends paid in 2011 on common stock.

***Cash Flows for the Year Ended December 31, 2010 Compared to Year Ended December 31, 2009***

Net cash provided by operating activities was \$64.1 million for the year ended December 31, 2010 compared to \$43.3 million for the year ended December 31, 2009. The \$20.8 million increase in net cash provided by operating activities was primarily due to an increase in net income of \$15.3 million, higher non-cash deferred income taxes of \$3.5 million and a decrease in cash used for working capital of \$2.3 million.

Net cash used in investing activities was \$7.7 million for the year ended December 31, 2010 compared to \$44.2 million for the year ended December 31, 2009. The \$36.4 million reduction in net cash used in investing activities was principally due to a decrease in net purchases of securities available-for-sale of \$34.7 million and a decrease in cash paid for business acquisitions of \$1.4 million. During the year ended December 31, 2009, we made a \$1.4 million earn-out payment related to the 2008 acquisition of Greenline. Net purchases of securities available-for-sale were \$0.6 million for the year ended December 31, 2010 compared to \$35.3 million for the year ended December 31, 2009. Capital expenditures were \$7.1 million and \$6.8 million for the year ended December 31, 2010 and 2009, respectively. Leasehold improvements and equipment expenditures in 2010 and 2009 included \$3.0 million and \$2.2 million, respectively, associated with the move of our corporate offices to new premises in New York City in the first half of 2010.

Net cash used in financing activities was \$33.8 million for the year ended December 31, 2010 compared to \$2.6 million for the year ended December 31, 2009. The \$31.2 million increase in net cash used in financing activities was principally due to the purchase of 1.9 million shares of our common stock at a cost of \$30.0 million under a share repurchase program and an increase in cash dividends paid on common stock and Series B preferred stock of \$8.0 million, offset by an increase in net proceeds on the exercise of stock options of \$4.5 million and excess tax benefits on stock-based compensation of \$1.9 million.

**Table of Contents****Index to Financial Statements*****Other Factors Influencing Liquidity and Capital Resources***

We are dependent on our broker-dealer clients who are not restricted from buying and selling fixed-income securities with institutional investors, either directly or through their own proprietary or third-party platforms. 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 addition, we fully utilized the balance of our unrestricted U.S. federal net operating loss carryforward during 2011, which we expect will result in an increase in cash paid for income taxes in subsequent years. In the event we require any additional financing, it will take the form of equity or debt financing. Any additional equity offerings may result in dilution to our stockholders. Any debt financings, if available at all, may involve restrictive covenants with respect to dividends, issuances of additional capital and other financial and operational matters related to our business.

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 dealer in the U.K. and MarketAxess Canada Ltd. is a registered Alternative Trading System dealer 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. Subject to rulemaking pursuant to the Dodd-Frank Act, we currently expect to establish and operate a swap execution facility and/or a security-based swap execution facility and we will be required to maintain an additional amount of minimum net capital in connection with such facilities. The following table sets forth the capital requirements, as defined, that the Company's subsidiaries were required to maintain as of December 31, 2011:

	<b>MarketAxess Corporation</b>	<b>MarketAxess Europe Limited (In thousands)</b>	<b>MarketAxess Canada Limited</b>
Net capital	\$ 73,890	\$ 24,301	\$ 418
Minimum net capital required	2,499	3,179	269
Excess net capital	\$ 71,391	\$ 21,122	\$ 149

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 are then settled through a third-party clearing organization. We act as intermediary on a riskless principal basis in these bond transactions by serving as counterparty to the two clients involved. 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. Under securities clearing agreements with the independent third party, we maintain collateral deposits with the clearing broker in the form of cash. As of December 31, 2011, the amount of the collateral deposits included in prepaid expenses and other assets in the Consolidated Statements of Financial Condition was \$0.9 million. We are exposed to credit risk in the event a

**Table of Contents****Index to Financial Statements**

counterparty does not fulfill its obligation to complete a transaction. Pursuant to the terms of the securities clearing agreements between us and the independent clearing broker, the clearing broker has the right to charge us for losses resulting from a counterparty's failure to fulfill its contractual obligations. The losses are not capped at a maximum amount and apply to all trades executed through the clearing broker. At December 31, 2011, we had not recorded any liabilities with regard to this right.

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

In October 2011, our Board of Directors authorized a share repurchase program for up to \$35.0 million of our common stock. As of December 31, 2011, a total of 237,998 shares were repurchased at an aggregate cost of \$6.9 million. Shares repurchased under the program will be held in treasury for future use. Through February 16, 2012, a total of 820,894 shares have been repurchased at an aggregate cost of \$25.2 million.

In January 2012, the Company's Board of Directors approved a quarterly cash dividend of \$0.11 per share payable on March 1, 2012 to stockholders of record as of the close of business on February 16, 2012. Any future declaration and payment of dividends will be at the sole discretion of the Company's Board of Directors. The Board of Directors may take into account such matters as general business conditions, the Company's financial results, capital requirements, contractual, legal, and regulatory restrictions on the payment of dividends to the Company's stockholders or by the Company's subsidiaries to the parent and any such other factors as the Board of Directors may deem relevant.

***Effects of Inflation***

Because the majority of our assets are liquid 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 position and results of operations.

**Contractual Obligations and Commitments**

As of December 31, 2011, we had the following contractual obligations and commitments:

	Total	Payments due by period			More than 5 years
		Less than 1 year	1 - 3 years (In thousands)	3 - 5 years	
Operating leases	\$ 19,551	\$ 1,805	\$ 3,546	\$ 4,041	\$ 10,159
Capital leases	700	336	364		
Foreign currency forward contract	28,516	28,516			
	\$ 48,767	\$ 30,657	\$ 3,910	\$ 4,041	\$ 10,159

We enter into foreign currency forward contracts with a non-controlling 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 December 31, 2011, the notional value of the foreign currency forward contract outstanding was \$28.7 million and the gross and net fair value asset was \$0.2 million.

As of December 31, 2011, we had unrecognized tax benefits of \$3.6 million. Due to the nature of the underlying positions, it is not currently possible to schedule the future payment obligations by period.

In January 2012, our Board of Directors approved a quarterly dividend to be paid to the holders of the outstanding shares of capital stock. A cash dividend of \$0.11 per share of voting and non-voting common stock outstanding will be payable on March 1, 2012 to stockholders of record as of the close of business on February 16, 2012. We expect the total amount payable to be approximately \$4.2 million.





**Table of Contents**

**Index to Financial Statements**

**Recent Accounting Pronouncements**

See Note 2 to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K for a discussion of recent accounting pronouncements.

**Item 7A. *Quantitative and Qualitative Disclosures About Market Risk.***

Market risk is the risk of the 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 December 31, 2011, we had a \$78.1 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.

See also Item 1A. *Risk Factors*, Risks Related to Our Industry *Economic, political and market factors beyond our control could reduce demand for our services and harm our business, and our profitability could suffer.*

***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 fixed-income securities in which we invest. As of December 31, 2011, our cash and cash equivalents and securities available-for-sale amounted to \$247.7 million and were primarily invested 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 December 31, 2011, the notional value of our foreign currency forward contract was \$28.7 million. We do not speculate in any derivative instruments.

***Credit Risk***

We act as a riskless principal through MarketAxess Corporation and MarketAxess Europe Limited 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

**Table of Contents**

**Index to Financial Statements**

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. There can be no assurance that the policies and procedures we use to manage this credit risk will effectively mitigate our credit risk exposure.

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

**Table of Contents**

**Index to Financial Statements**

**Item 8. *Financial Statements and Supplementary Data.***

**MARKETAXESS HOLDINGS INC.**

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

<b><u>Management's Report on Internal Control Over Financial Reporting</u></b>	71
<b><u>Audited Consolidated Financial Statements</u></b>	
<u>Report of Independent Registered Public Accounting Firm</u>	72
<u>Consolidated Statements of Financial Condition As of December 31, 2011 and 2010</u>	73
<u>Consolidated Statements of Operations For the years ended December 31, 2011, 2010 and 2009</u>	74
<u>Consolidated Statements of Changes in Stockholders' Equity and Accumulated Other Comprehensive Loss For the years ended December 31, 2011, 2010 and 2009</u>	75
<u>Consolidated Statements of Cash Flows For the years ended December 31, 2011, 2010 and 2009</u>	76
<u>Notes to Consolidated Financial Statements</u>	77
<i>The unaudited supplementary data regarding consolidated quarterly income statement data are incorporated by reference to the information set forth in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, in the section captioned Quarterly Results of Operations.</i>	

**Table of Contents**

**Index to Financial Statements**

**MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

Management of MarketAxess Holdings Inc. is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. The Company's internal control over financial reporting includes those policies and procedures that:

(i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;

(ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

(iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2011. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control - Integrated Framework*.

Based on our assessment and those criteria, management concluded that the Company maintained effective internal control over financial reporting as of December 31, 2011.

The effectiveness of our internal control over financial reporting as of December 31, 2011 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

**Table of Contents**

**Index to Financial Statements**

**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Stockholders of MarketAxess Holdings Inc.:

In our opinion, the consolidated financial statements listed in the accompanying index on page 70 present fairly, in all material respects, the financial position of MarketAxess Holdings Inc. and its subsidiaries at December 31, 2011 and 2010, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PRICEWATERHOUSECOOPERS LLP  
PRICEWATERHOUSECOOPERS LLP

New York, New York

February 17, 2012

**Table of Contents****Index to Financial Statements****MARKETAXESS HOLDINGS INC.****CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION**

	As of December 31	
	2011	2010
	(In thousands, except share and per share amounts)	
<b>ASSETS</b>		
Cash and cash equivalents	\$ 169,620	\$ 124,994
Securities available-for-sale	78,110	72,552
Accounts receivable, net of allowance of \$1,086 and \$427 as of December 31, 2011 and 2010, respectively	36,170	25,682
Deferred tax assets, net	8,089	19,813
Goodwill and intangible assets, net of accumulated amortization	34,544	36,012
Capitalized software, furniture, equipment and leasehold improvements, net of accumulated depreciation and amortization	14,460	12,545
Prepaid expenses and other assets	8,465	7,923
<b>Total assets</b>	<b>\$ 349,458</b>	<b>\$ 299,521</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>Liabilities</b>		
Accrued employee compensation	\$ 19,425	\$ 17,791
Deferred revenue	5,326	4,571
Accounts payable, accrued expenses and other liabilities	12,268	12,368
<b>Total liabilities</b>	<b>37,019</b>	<b>34,730</b>
Commitments and Contingencies (Note 12)		
Series B Preferred Stock, \$0.001 par value, 35,000 shares authorized; zero and 35,000 issued and outstanding as of December 31, 2011 and 2010, respectively		30,315
<b>Stockholders equity</b>		
Preferred stock, \$0.001 par value, 4,855,000 shares authorized, no shares issued and outstanding as of December 31, 2011 and 2010		
Series A Preferred Stock, \$0.001 par value, 110,000 shares authorized, no shares issued and outstanding as of December 31, 2011 and 2010		
Common stock voting, \$0.003 par value, 110,000,000 shares authorized, 37,725,394 shares and 35,945,001 shares issued and 36,183,655 shares and 31,141,261 shares outstanding as of December 31, 2011 and 2010, respectively	113	108
Common stock non-voting, \$0.003 par value, 10,000,000 shares authorized, 2,585,654 shares issued and outstanding as of December 31, 2011 and 2010	9	9
Additional paid-in capital	340,716	340,615
Treasury stock Common stock voting, at cost, 1,541,739 shares and 4,803,740 shares as of December 31, 2011 and 2010, respectively	(25,933)	(70,000)
Accumulated deficit	(584)	(34,605)
Accumulated other comprehensive loss	(1,882)	(1,651)
<b>Total stockholders equity</b>	<b>312,439</b>	<b>234,476</b>
<b>Total liabilities and stockholders equity</b>	<b>\$ 349,458</b>	<b>\$ 299,521</b>

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



**Table of Contents****Index to Financial Statements**

**MARKETAXESS HOLDINGS INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

	Year Ended December 31,		
	2011	2010	2009
	(In thousands, except per share amounts)		
<b>Revenues</b>			
Commissions			
U.S. high-grade	\$ 108,931	\$ 83,796	\$ 62,557
Eurobond	17,799	18,656	20,339
Other	28,714	19,728	13,236
<b>Total commissions</b>	<b>155,444</b>	<b>122,180</b>	<b>96,132</b>
Technology products and services	14,310	13,648	9,778
Information and user access fees	7,199	6,681	6,252
Investment income	1,229	1,192	1,222
Other	2,917	2,527	1,055
<b>Total revenues</b>	<b>181,099</b>	<b>146,228</b>	<b>114,439</b>
<b>Expenses</b>			
Employee compensation and benefits	58,786	56,446	50,274
Depreciation and amortization	6,781	6,350	6,790
Technology and communications	10,912	9,982	8,436
Professional and consulting fees	10,138	8,503	6,869
Occupancy	2,921	2,997	3,129
Marketing and advertising	4,882	3,075	2,882
General and administrative	7,946	7,965	6,010
<b>Total expenses</b>	<b>102,366</b>	<b>95,318</b>	<b>84,390</b>
<b>Income before income taxes</b>	<b>78,733</b>	<b>50,910</b>	<b>30,049</b>
<b>Provision for income taxes</b>	<b>31,029</b>	<b>19,482</b>	<b>13,947</b>
<b>Net income</b>	<b>\$ 47,704</b>	<b>\$ 31,428</b>	<b>\$ 16,102</b>
Net income per common share			
Basic	\$ 1.29	\$ 0.86	\$ 0.44
Diluted	\$ 1.20	\$ 0.80	\$ 0.42
Cash dividends declared per common share	\$ 0.36	\$ 0.28	\$ 0.07
Weighted average shares outstanding			
Basic	37,006	33,159	33,264
Diluted	39,608	39,051	38,082

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

Table of ContentsIndex to Financial Statements

## MARKETAXESS HOLDINGS INC.

## CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY AND ACCUMULATED OTHER COMPREHENSIVE LOSS

	Common Stock Voting	Common Stock Non - Voting	Additional Paid-In Capital	Receivable for Common Stock Subscribed	Treasury Stock - Common Stock Voting	Accumulated Deficit	Accumulated Other Comprehen- sive Loss	Total Stockholders Equity
	(In thousands)							
Balance at December 31, 2008	\$ 102	\$ 9	\$ 305,508	\$ (951)	\$ (40,000)	\$ (68,855)	\$ (1,320)	\$ 194,493
Comprehensive income:								
Net income						16,102		16,102
Cumulative translation adjustment and foreign currency exchange hedge, net of tax							(331)	(331)
Unrealized net gain on securities available-for-sale, net of tax							260	260
Total comprehensive income								16,031
Stock-based compensation			8,414					8,414
Exercise of stock options and grants of restricted stock, net of withholding tax on stock vesting	2		240					242
Decrement in windfall from stock-based compensation			(266)					(266)
Repayment of promissory notes				238				238
Cash dividend on common stock and Series B Preferred Stock						(2,650)		(2,650)
Balance at December 31, 2009	104	9	313,896	(713)	(40,000)	(55,403)	(1,391)	216,502
Comprehensive income:								
Net income						31,428		31,428
Cumulative translation adjustment and foreign currency exchange hedge, net of tax							(564)	(564)
Unrealized net gain on securities available-for-sale, net of tax							304	304
Total comprehensive income								31,168
Stock-based compensation			8,969					8,969
Exercise of stock options and grants of restricted stock, net of surrender on stock option exercises and withholding tax on stock vesting	4		4,702					4,706
Tax benefit from the exercise of warrants in prior years			11,429					11,429
Excess tax benefits from stock-based compensation			1,619					1,619
Repayment of promissory notes				713				713
Purchase of treasury stock					(30,000)			(30,000)
Cash dividend on common stock and Series B Preferred Stock						(10,630)		(10,630)
Balance at December 31, 2010	108	9	340,615		(70,000)	(34,605)	(1,651)	234,476
Comprehensive income:								
Net income						47,704		47,704
Cumulative translation adjustment and foreign currency exchange hedge, net of tax							(634)	(634)
							403	403

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Unrealized net gain on securities available-for-sale, net of tax									
Total comprehensive income									47,473
Stock-based compensation			6,859						6,859
Exercise of stock options, warrants and grants of restricted stock, net of surrender on stock option exercises and withholding tax on stock vesting	4		2,388						2,392
Conversion of Series B Preferred stock to common stock voting	1		(20,688)		51,002				30,315
Tax benefit from the exercise of warrants in prior years			4,237						4,237
Excess tax benefits from stock-based compensation			7,305						7,305
Purchase of treasury stock					(6,935)				(6,935)
Cash dividend on common stock							(13,683)		(13,683)
Balance at December 31, 2011	\$ 113	\$ 9	\$ 340,716	\$	\$ (25,933)	\$	(584)	\$ (1,882)	\$ 312,439

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

Table of ContentsIndex to Financial Statements

## MARKETAXESS HOLDINGS INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2011	2010	2009
	(In thousands)		
<b>Cash flows from operating activities</b>			
Net income	\$ 47,704	\$ 31,428	\$ 16,102
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	6,781	6,350	6,790
Stock-based compensation expense	6,859	8,969	8,414
Deferred taxes	16,129	15,767	12,255
Provision for bad debts	1,177	602	652
Gain on sale of securities		(411)	
Changes in operating assets and liabilities:			
(Increase) in accounts receivable	(11,665)	(3,134)	(10,519)
(Increase) decrease in prepaid expenses and other assets	(4,074)	57	136
Increase in accrued employee compensation	1,634	2,634	4,718
Increase in deferred revenue	755	309	1,959
Increase in accounts payable, accrued expenses and other liabilities	178	1,575	2,820
<b>Net cash provided by operating activities</b>	<b>65,478</b>	<b>64,146</b>	<b>43,327</b>
<b>Cash flows from investing activities</b>			
Acquisition of business			(1,368)
Securities available-for-sale:			
Proceeds from maturities and sales	27,419	65,365	22,062
Purchases	(32,302)	(66,008)	(57,406)
Securities and cash provided as collateral	3,532	32	(655)
Purchases of furniture, equipment and leasehold improvements	(3,160)	(5,205)	(4,909)
Capitalization of software development costs	(4,065)	(1,904)	(1,889)
<b>Net cash (used in) investing activities</b>	<b>(8,576)</b>	<b>(7,720)</b>	<b>(44,165)</b>
<b>Cash flows from financing activities</b>			
Cash dividend on common stock and Series B Preferred Stock	(13,683)	(10,630)	(2,650)
Proceeds from exercise of stock options and grants of restricted stock, net of surrenders on stock option exercises and withholding tax on stock vesting	2,392	4,706	242
Excess tax benefits (decrements) from stock-based compensation	7,305	1,619	(266)
Purchase of treasury stock common stock voting	(6,935)	(30,000)	
Other	(278)	456	28
<b>Net cash (used in) financing activities</b>	<b>(11,199)</b>	<b>(33,849)</b>	<b>(2,646)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>(1,077)</b>	<b>(924)</b>	<b>(498)</b>
<b>Cash and cash equivalents</b>			
Net increase (decrease) for the period	44,626	21,653	(3,982)
Beginning of period	124,994	103,341	107,323
<b>End of period</b>	<b>\$ 169,620</b>	<b>\$ 124,994</b>	<b>\$ 103,341</b>

**Supplemental cash flow information:**

**Cash paid during the year**

Cash paid for income taxes	\$ 10,177	\$ 2,228	\$ 837
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**Non-cash activity**

Conversion of Series B Preferred Stock to common stock	\$ 30,315	\$	\$
Capital lease obligation			723

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

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**Table of Contents**

**Index to Financial Statements**

**MARKETAXESS HOLDINGS INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Organization and Principal Business Activity**

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

For 2011 and 2010, JPMorgan Chase & Co. was the Company's sole stockholder broker-dealer client. For 2009, JPMorgan Chase & Co., BNP Paribas and Credit Suisse were considered to be stockholder broker-dealer clients. These broker-dealer clients constitute related parties of the Company (together, the Stockholder Broker-Dealer Clients). See Note 8, 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.

***Cash and Cash Equivalents***

Cash and cash equivalents includes cash and money market instruments that are primarily maintained at one major global bank. Given this concentration, the Company is exposed to certain credit risk. 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 on the Consolidated Statements of Financial Condition. Realized gains and losses are recorded in the Consolidated Statements of Operations in other revenues. For the purpose of computing realized gains and losses, cost is determined on a specific identification basis.

The Company assesses whether an other-than-temporary impairment loss on the investments has occurred due to declines in fair value or other market conditions. The portion of an other-than-temporary impairment related to credit loss is recorded as a charge in the Consolidated Statements of Operations. The remainder is recognized in other comprehensive loss if the Company does not intend to sell the security and it is more likely than not that the Company will not be required to sell the security prior to recovery. No charges for other-than-temporary losses were recorded during 2011, 2010 or 2009.

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**Table of Contents**

**Index to Financial Statements**

**MARKETAXESS HOLDINGS INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Fair Value Financial Instruments***

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

***Allowance for Doubtful Accounts***

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

The allowance for doubtful accounts was \$1.1 million, \$0.4 million and \$0.9 million as of December 31, 2011, 2010 and 2009, respectively. The provision for bad debts was \$1.2 million, \$0.6 million and \$0.7 million for the years ended December 31, 2011, 2010 and 2009, respectively. During the fourth quarter of 2011, MF Global Inc., a broker-dealer market maker on the Company's platform, entered into a liquidation proceeding. In connection with the proceeding, the Company recorded a 100% allowance against outstanding receivables amounting to \$0.9 million. Write-offs and other charges against the allowance for doubtful accounts were \$0.2 million, \$0.7 million and \$0.6 million for the years ended December 31, 2011, 2010 and 2009, respectively.

***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.

***Cash Provided as Collateral***

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

**Table of Contents**

**Index to Financial Statements**

**MARKETAXESS HOLDINGS INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***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 included in accumulated other comprehensive loss on 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.

*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 PCS together as part of multiple-element arrangements. The Company also enters into contracts for technology integration consulting services unrelated to any software product.

For arrangements that include multiple elements, generally software licenses and PCS, the Company allocates and defers revenue for the undelivered items based on vendor specific objective evidence (VSOE) of the fair value of the undelivered elements and recognizes the difference between the total arrangement fee and the amount deferred for the undelivered items as license revenue. The Company's VSOE of each element is based on historical evidence of stand-alone sales of these elements to third parties or the stated renewal rate for the undelivered elements. When VSOE does not exist for undelivered items, the entire arrangement fee is recognized ratably over the performance period. For PCS, the term is typically one year and revenue is recognized over the duration of the arrangement on a straight-line basis.

Professional consulting services are generally separately priced 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.

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



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**Table of Contents**

**Index to Financial Statements**

**MARKETAXESS HOLDINGS INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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 December 31, 2011 and 2010. Revenues recognized in excess of billings are recorded as unbilled services within other assets. 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, if any, 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 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 are accounted for under the purchase method of accounting. The total cost of an acquisition is allocated to the underlying net assets based on their respective estimated fair values. The excess of the purchase price over the estimated fair values of the net assets acquired is recorded as goodwill. Determining the fair value of certain assets acquired and liabilities assumed is judgmental in nature and often involves the use of significant estimates and assumptions, including assumptions with respect to future cash flows, discount rates, growth rates and asset lives.

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. Intangible assets are assessed for impairment when events or circumstances indicate the existence of a possible impairment.

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**Table of Contents**

**Index to Financial Statements**

**MARKETAXESS HOLDINGS INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Earnings Per Share***

For 2010 and 2009, earnings per share ( EPS ) was 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 was convertible into shares of common stock and also included 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 was considered a participating security requiring the use of the two-class method for the computation of basic EPS.

In January 2011, all of the shares of the Series B Preferred Stock were mandatorily and automatically converted into shares of common stock. For 2011, basic EPS is computed by dividing the net income attributable to common stock by the weighted-average number of shares of common stock outstanding during the period.

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 participated equally with the common stock in dividends and unallocated income, diluted EPS under the if-converted method was and is equivalent to the two-class method. The weighted-average shares outstanding of common stock reflects the dilutive effect that could occur if convertible securities or other contracts to issue common stock were converted into or exercised for common stock.

***Use of Estimates***

The preparation of financial statements in conformity with 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 2009, the Financial Accounting Standards Board ( FASB ) issued authoritative guidance on revenue recognition. The guidance required entities to allocate revenue in an arrangement with multiple deliverables using estimated selling prices of the delivered goods and services based on a selling price hierarchy. The guidance also removed tangible products from the scope of software revenue guidance and provides guidance on determining whether software deliverables in an arrangement that includes a tangible product are covered by the scope of the software revenue guidance. The Company adopted the new revenue recognition guidance effective January 1, 2011 and there was no material impact on the Company's Consolidated Financial Statements.

In 2011, the FASB issued new accounting guidance that simplifies goodwill impairment tests. The new guidance states that a qualitative assessment may be performed to determine whether further impairment testing is necessary. This accounting standard is effective for fiscal years beginning on or after December 15, 2011. The Company does not anticipate that adoption will have an impact on the Consolidated Financial Statements.

In 2011, the FASB issued new disclosure guidance related to the presentation of the Statement of Comprehensive Income. This guidance eliminates the current option to report other comprehensive income and

**Table of Contents****Index to Financial Statements****MARKETAXESS HOLDINGS INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

its components in the Consolidated Statement of Changes in Stockholders' Equity. The requirement to present reclassification adjustments out of accumulated other comprehensive income on the face of the Consolidated Statement of Operations has been deferred. This accounting standard is effective for fiscal years beginning on or after December 15, 2011. The Company does not anticipate that adoption will have an impact on the Consolidated Financial Statements.

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

MarketAxess Corporation, a U.S. subsidiary, is a registered broker-dealer with the Securities and Exchange Commission ( 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 \$100,000 or 6 2/3% of aggregate indebtedness. MarketAxess Europe Limited, a U.K. subsidiary, is registered as a Multilateral Trading Facility dealer 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 December 31, 2011:

	<b>MarketAxess Corporation</b>	<b>MarketAxess Europe Limited (In thousands)</b>	<b>MarketAxess Canada Limited</b>
Net capital	\$ 73,890	\$ 24,301	\$ 418
Minimum net capital required	2,499	3,179	269
Excess net capital	\$ 71,391	\$ 21,122	\$ 149

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****Index to Financial Statements****MARKETAXESS HOLDINGS INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****4. Fair Value Measurements**

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

	Level 1	Level 2	Level 3	Total
	(In thousands)			
<b><u>As of December 31, 2011</u></b>				
Money market funds	\$ 111,256	\$	\$	\$ 111,256
Securities available-for-sale				
U.S. government obligations		55,460		55,460
Municipal securities		20,612		20,612
Corporate bonds		2,038		2,038
Foreign currency forward contract		155		155
	\$ 111,256	\$ 78,265	\$	\$ 189,521
<b><u>As of December 31, 2010</u></b>				
Money market funds	\$ 96,661	\$	\$	\$ 96,661
Securities available-for-sale				
U.S. government obligations		41,351		41,351
Municipal securities		29,145		29,145
Corporate bonds		2,056		2,056
Foreign currency forward contract		(337)		(337)
	\$ 96,661	\$ 72,215	\$	\$ 168,876

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. There were no financial assets classified within Level 3 during 2011 and 2010.

The Company enters into foreign currency forward contracts with a non-controlling 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 \$0.2 million as of December 31, 2011 is included in accounts receivable and the gross and net fair value liability of \$0.3 million as of December 31, 2010 is included in accounts payable, in the Consolidated Statements of Financial Condition. Gains or losses on foreign currency forward contracts designated as hedges are included in accumulated other comprehensive loss in the Consolidated Statements of Financial Condition. A summary of the foreign currency forward contracts is as follows:

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	As of December 31,	
	2011	2010
	(In thousands)	
Notional value	\$ 28,671	\$ 29,117
Fair value of notional	28,516	29,454
Gross and net fair value asset (liability)	\$ 155	\$ (337)

**Table of Contents****Index to Financial Statements****MARKETAXESS HOLDINGS INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following is a summary of the Company's securities available-for-sale:

	Amortized cost	Gross unrealized gains (In thousands)	Gross unrealized losses	Estimated fair value
<b><u>As of December 31, 2011</u></b>				
U.S. government obligations	\$ 53,832	\$ 1,628	\$	\$ 55,460
Municipal securities	20,613	7	(8)	20,612
Corporate bonds	2,028	10		2,038
<b>Total securities available-for-sale</b>	<b>\$ 76,473</b>	<b>\$ 1,645</b>	<b>\$ (8)</b>	<b>\$ 78,110</b>
<b><u>As of December 31, 2010</u></b>				
U.S. government obligations	\$ 40,383	\$ 968	\$	\$ 41,351
Municipal securities	29,150	14	(19)	29,145
Corporate bonds	2,056			2,056
<b>Total securities available-for-sale</b>	<b>\$ 71,589</b>	<b>\$ 982</b>	<b>\$ (19)</b>	<b>\$ 72,552</b>

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

	As of December 31, 2011	As of December 31, 2010
	(In thousands)	
Less than one year	\$ 31,554	\$ 23,593
Due in 1 - 5 years	46,556	48,959
<b>Total securities available-for-sale</b>	<b>\$ 78,110</b>	<b>\$ 72,552</b>

Proceeds from the maturities and sale of securities available-for-sale during 2011, 2010 and 2009 were \$27.4 million, \$65.4 million and \$22.1 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

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value

(In thousands)

**As of December 31, 2011**

U.S. government obligations	\$	\$	\$	\$	\$	\$
Municipal securities	9,529	(8)			9,529	(8)
Corporate bonds						
Total	\$ 9,529	\$ (8)	\$	\$	\$ 9,529	\$ (8)

**As of December 31, 2010**

U.S. government obligations	\$	\$	\$	\$	\$	\$
Municipal securities	18,218	(19)			18,218	(19)
Corporate bonds						
Total	\$ 18,218	\$ (19)	\$	\$	\$ 18,218	\$ (19)

Table of ContentsIndex to Financial Statements

## MARKETAXESS HOLDINGS INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**5. Goodwill and Intangible Assets**

Goodwill and intangible assets principally relate to the acquisitions of Greenline Financial Technologies, Inc. ( Greenline ) in 2008 and Trade West Systems, LLC in 2007. Goodwill was \$31.8 million as of both December 31, 2011 and December 31, 2010. Intangible assets that are subject to amortization, including the related accumulated amortization, are comprised of the following:

	December 31, 2011			December 31, 2010		
	Cost	Accumulated Amortization	Net Carrying Amount	Cost	Accumulated Amortization	Net Carrying Amount
	(In thousands)					
Technology	\$ 4,010	\$ (3,202)	\$ 808	\$ 4,010	\$ (2,505)	\$ 1,505
Customer relationships	3,530	(1,999)	1,531	3,530	(1,584)	1,946
Non-competition agreements	1,260	(962)	298	1,260	(710)	550
Tradenames	590	(467)	123	590	(363)	227
<b>Total</b>	<b>\$ 9,390</b>	<b>\$ (6,630)</b>	<b>\$ 2,760</b>	<b>\$ 9,390</b>	<b>\$ (5,162)</b>	<b>\$ 4,228</b>

Amortization expense associated with identifiable intangible assets was \$1.5 million for both the years ended December 31, 2011 and 2010. Estimated total amortization expense is \$1.4 million for 2012, \$0.5 million for 2013, \$0.3 million for 2014 and \$0.2 million for each of 2015 and 2016.

**6. Capitalized Software, Furniture, Equipment and Leasehold Improvements**

Capitalized software development costs, furniture, equipment and leasehold improvements, net of accumulated depreciation and amortization, are comprised of the following:

	As of December 31,	
	2011	2010
	(In thousands)	
Software development costs	\$ 24,440	\$ 21,195
Computer hardware and related software	11,126	13,534
Office hardware	1,832	1,630
Furniture and fixtures	1,446	1,449
Leasehold improvements	4,667	4,582
Computer hardware under capital lease	1,419	1,419
Accumulated depreciation and amortization	(30,470)	(31,264)
<b>Total capitalized software, furniture, equipment and leasehold improvements, net of accumulated depreciation and amortization</b>	<b>\$ 14,460</b>	<b>\$ 12,545</b>

During the years ended December 31, 2011, 2010 and 2009, software development costs totaling \$4.1 million, \$1.9 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.





**Table of Contents****Index to Financial Statements****MARKETAXESS HOLDINGS INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****7. Income Taxes**

The provision for income taxes consists of the following:

	Year Ended December 31,		
	2011	2010	2009
	(In thousands)		
<b>Current:</b>			
Federal	\$ 3,605	\$	\$ (308)
State and local	2,793	355	57
Foreign	1,194	1,348	2,022
<b>Total current provision</b>	<b>7,592</b>	<b>1,703</b>	<b>1,771</b>
<b>Deferred:</b>			
Federal	20,531	14,494	6,763
State and local	2,890	3,170	5,014
Foreign	16	115	399
<b>Total deferred provision</b>	<b>23,437</b>	<b>17,779</b>	<b>12,176</b>
<b>Provision for income taxes</b>	<b>\$ 31,029</b>	<b>\$ 19,482</b>	<b>\$ 13,947</b>

Pre-tax income from U.S. operations was \$74.3 million, \$46.1 million and \$21.6 million for the years ended December 31, 2011, 2010 and 2009, respectively. Pre-tax income from foreign operations was \$4.4 million, \$4.8 million and \$8.4 million for the years ended December 31, 2011, 2010 and 2009, respectively.

The difference between the Company's reported provision for income taxes and the U.S. federal statutory rate of 35% is as follows:

	Year Ended December 31,		
	2011	2010	2009
U.S. federal tax at statutory rate	35.0%	35.0%	35.0%
State and local taxes net of federal benefit	5.2	4.6	6.1
Stock compensation	(0.1)	(0.1)	1.2
Change in rates for deferred tax assets	(0.2)	(0.1)	5.2
Tax-exempt interest income	(0.0)	(0.1)	(0.6)
Other, net	(0.5)	(1.1)	(0.5)
<b>Provision for income taxes</b>	<b>39.4%</b>	<b>38.3%</b>	<b>46.4%</b>



Table of ContentsIndex to Financial Statements

## MARKETAXESS HOLDINGS INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

During 2009, the Company reduced the income tax rates used for recording net deferred tax assets to reflect the tax rates anticipated to be in effect when the temporary differences are expected to reverse, resulting in a decrease in net deferred tax assets and an increase in tax expense of \$1.6 million. The 2009 tax rate change reflected a refinement in the Company's state and local tax apportionment methodology. The following is a summary of the Company's net deferred tax assets:

	As of December 31,	
	2011	2010
	(In thousands)	
Deferred tax assets		
U.S net operating loss carryforwards	\$ 4,589	\$ 6,935
Foreign net operating loss carryforwards	165	237
Depreciation and amortization		789
Stock compensation expense	5,312	6,945
Tax credits		6,035
Other	3,280	1,958
Total deferred tax assets	13,346	22,899
Valuation allowance	(287)	(249)
Net deferred tax assets	13,059	22,650
Deferred tax liabilities		
Depreciation and amortization	(1,905)	
Capitalized software development costs	(1,980)	(1,210)
Intangible assets	(1,085)	(1,627)
Deferred tax assets, net	\$ 8,089	\$ 19,813

As of December 31, 2011, the Company had deferred tax assets associated with stock-based compensation of approximately \$5.3 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 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 be realized in the future is unknown, it is not currently possible to estimate the impact on the deferred tax balance. As of December 31, 2011, the additional paid-in-capital pool, which is determined under a one pool approach for employee and non-employee awards, was approximately \$27.9 million. The additional paid-in-capital pool is currently sufficient to absorb a complete write-off of the stock-based compensation deferred tax asset.

As of December 31, 2011, the Company had restricted U.S. federal net operating loss carryforwards of approximately \$12.3 million, which begin to expire in 2021, and \$0.7 million of foreign loss carryforwards, which begin to expire in 2025. In 2001 and 2000, MarketAxess Holdings Inc. and MarketAxess Corporation had an ownership change within the meaning of Section 382 of the Internal Revenue Code. Net operating loss carryforwards relating to the ownership change were \$23.2 million as of December 31, 2011. However, only \$4.0 million is deemed utilizable and recognized as a net operating loss carryforward. Greenline experienced an ownership change within the meaning of Section 382 of the Internal Revenue Code in 2008. The Company does not believe that this ownership change significantly impacts the ability to utilize acquired net operating loss carryforwards, which amounted to \$8.3 million as of December 31, 2011. In addition, the Company's net operating loss carryforwards may be subject to additional annual limitations if there is a 50% or greater change in the Company's ownership, as determined over a rolling three-year period.



Table of ContentsIndex to Financial Statements

## MARKETAXESS HOLDINGS INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company issued warrants to certain broker-dealer stockholders at the time that they made an equity investment in the Company. All of the warrants were exercised prior to 2008. Through December 31, 2009, the tax benefit on a portion of the tax deduction generated on the exercise of the warrants had not yet been recorded. During 2010, the Company recognized a portion of the tax benefits amounting to \$11.4 million as an increase to additional paid-in-capital due to the utilization of the related tax loss carryforwards of \$31.0 million. During the first quarter of 2011, the Company recognized the remaining portion of the tax benefit, amounting to \$4.2 million, as an increase to additional paid-in-capital due to the expected utilization of the related tax loss carryforwards of \$10.4 million.

The ultimate realization of deferred income tax assets is dependent upon the generation of future taxable income during the periods in which the temporary differences become deductible. If it is not more likely than not that some portion or all of the gross deferred income tax assets will be realized in future years, a valuation allowance is recorded. As of December 31, 2011, the valuation allowance relates to certain foreign and state tax loss carryforwards that are not expected to be realized. A summary of the changes in the valuation allowance follows:

	Year Ended December 31,		
	2011	2010	2009
	(In thousands)		
Valuation allowance at beginning of year	\$ 249	\$ 666	\$ 567
Increase (decrease) to valuation allowance attributable to:			
Net operating losses	38	(132)	39
Temporary differences			186
Tax credits		(285)	(126)
Valuation allowance at end of year	\$ 287	\$ 249	\$ 666

The Company or one of its subsidiaries files U.S. federal, state and foreign income tax returns. No income tax returns have been audited, with the exception of New York city (through 2003) and state (through 2006) and Connecticut state (through 2003) tax returns. An examination of the Company's New York state franchise tax returns for 2007 through 2009 is currently underway. The Company cannot estimate when the examination will conclude.

As of December 31, 2011, the Company has unrecognized tax benefits of \$3.6 million. If recognized, this entire amount would impact the effective tax rate. The Company currently anticipates the amount of unrecognized tax benefits to increase by approximately \$0.4 million by December 31, 2012. A reconciliation of the unrecognized tax benefits is as follows (in thousands):

	2011	2010	2009
	(In thousands)		
Balance at beginning of year	\$ 3,329	\$ 2,924	\$ 2,685
Additions for tax positions of prior years	366	277	239
Additions for tax positions of current year		128	
Reductions for tax positions of prior years	(48)		
Balance at end of year	\$ 3,647	\$ 3,329	\$ 2,924



Table of ContentsIndex to Financial Statements

## MARKETAXESS HOLDINGS INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**8. 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 the Stockholder Broker-Dealer Clients or their affiliates. In addition, the Stockholder Broker-Dealer Clients act in a custodial and cash management capacity for the Company. The Company also maintained an account with and paid commissions to a Stockholder Broker-Dealer Client in connection with the Company's share repurchase program. The Company also incurs bank fees in connection with these arrangements. 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 December 31,	
	2011	2010
	(In thousands)	
Cash and cash equivalents	\$ 156,982	\$ 110,642
Securities and cash provided as collateral	550	4,049
Accounts receivable	2,255	829
Accounts payable	86	66

	Year Ended December 31,		
	2011	2010	2009
	(In thousands)		
Commissions	\$ 7,045	\$ 5,541	\$ 14,103
Technology products and services	167	16	35
Information and user access fees	176	132	243
Investment income	90	113	214
Other income	66	63	152
General and administrative	73	27	79

In 2001, the Company awarded 289,581 shares of common stock to the Company's Chief Executive Officer at \$3.60 per share, which vested over a three-year period. The common stock was issued in exchange for four eleven-year promissory notes that bore interest at the applicable federal rate and were collateralized by the subscribed shares. In July 2010, the loan and interest receivable were paid in full.

**9. Stockholders Equity***Common Stock*

As of December 31, 2011 and 2010, 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.

In June 2010, the Board of Directors of the Company authorized a share repurchase program for up to \$30.0 million of the Company's common stock. The share repurchase program was completed in December 2010. A total of 1,939,620 shares were repurchased at an aggregate cost of \$30.0 million over the life of the repurchase program. Shares repurchased under the program are held in treasury for future use.





**Table of Contents**

**Index to Financial Statements**

**MARKETAXESS HOLDINGS INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

In October 2011, the Board of Directors of the Company authorized a share repurchase program for up to \$35.0 million of the Company's common stock. As of December 31, 2011, a total of 237,998 shares were repurchased at an aggregate cost of \$6.9 million. Shares repurchased under the program are held in treasury for future use.

***Series B Preferred Stock Conversion***

During 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 sold to the Purchasers (i) 35,000 shares of the Company's Series B Preferred Stock, which shares were convertible into an aggregate of 3,500,000 shares of common stock, and (ii) warrants (the "Warrants") 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 net proceeds, after the placement agent fee and legal fees, were \$33.5 million.

The shares of Series B Preferred Stock were convertible at any time by the holders thereof at a conversion price of \$10.00 per share, subject to certain anti-dilution adjustments and also were subject to automatic conversion into shares of common stock if the closing price of the common stock was at least \$17.50 on each trading day for a period of 65 consecutive trading days. In January 2011, all of the shares of the Series B Preferred Stock were mandatorily and automatically converted into 3,499,999 shares of common stock.

The Warrants were exercisable for cash or on a net exercise basis, subject to certain anti-dilution adjustments and due to expire on the tenth anniversary of the date they were first issued. In November 2011, a total of 455,465 shares of common stock were issued upon the exercise of the Warrants on a net exercise basis.

***Dividends***

The Company initiated a regular quarterly dividend in the fourth quarter of 2009. In January 2012, the Company's Board of Directors approved a quarterly cash dividend of \$0.11 per share payable on March 1, 2012 to stockholders of record as of the close of business on February 16, 2012. Any future declaration and payment of dividends will be at the sole discretion of the Company's Board of Directors. The Board of Directors may take into account such matters as general business conditions, the Company's financial results, capital requirements, contractual, legal, and regulatory restrictions on the payment of dividends to the Company's stockholders or by the Company's subsidiaries to the parent and any such other factors as the Board of Directors may deem relevant.

**10. Stock-Based Compensation Plans**

The Company has three stock incentive plans which provide for the grant of stock options, stock appreciation rights, restricted stock, performance shares, performance units, or other stock-based awards as incentives and rewards to encourage employees, consultants and non-employee directors to participate in the long-term success of the Company. As of December 31, 2011, there were 3,902,269 shares available for grant under the stock incentive plans.

Table of ContentsIndex to Financial Statements

## MARKETAXESS HOLDINGS INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Total stock-based compensation expense was as follows:

	Year Ended December 31,		
	2011	2010	2009
	(In thousands)		
Employee:			
Restricted stock and performance shares	\$ 5,856	\$ 6,588	\$ 5,040
Stock options	324	1,728	2,858
	6,180	8,316	7,898
Non-employee directors:			
Restricted stock	679	570	373
Stock options		83	143
	679	653	516
Total stock-based compensation	\$ 6,859	\$ 8,969	\$ 8,414

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

**Stock Options**

The exercise price of each option granted is equal to the market price of the Company's common stock on the date of grant. Generally, option grants have provided for vesting over a three or five-year period. Options expire ten years from the date of grant. The fair value of each option award is estimated on the date of grant using the Black-Scholes option-pricing model. The determination of fair value of share-based payment awards on the date of grant using an option-pricing model is affected by the Company's stock price as well as assumptions regarding a number of highly complex and subjective variables, including the expected stock price volatility over the term of the awards, the risk-free interest rate and the expected term. Expected volatilities are based on historical volatility of the Company's stock and a peer group. The risk-free interest rate is based on U.S. Treasury securities with a maturity value approximating the expected term of the option. The expected term represents the period of time that options granted are expected to be outstanding based on actual and projected employee stock option exercise behavior.

The weighted-average fair value for options granted during 2011, 2010 and 2009 was \$11.29, \$5.45 and \$4.60, respectively. The following table represents the assumptions used for the Black-Scholes option-pricing model to determine the per share weighted-average fair value for options granted for the three years ended December 31, 2011:

	2011	2010	2009
Expected life (years)	9.9	5.0	5.4
Risk-free interest rate	3.3%	2.2%	2.4%
Expected volatility	48.0%	50.0%	49.8%
Expected dividend yield	1.3%	2.0%	0.0%



Table of ContentsIndex to Financial Statements

## MARKETAXESS HOLDINGS INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table reports stock option activity during the three years ended December 31, 2011 and the intrinsic value as of December 31, 2011:

	Number of Shares	Weighted-Average Exercise Price (In thousands)	Remaining Contractual Term	Intrinsic Value
Outstanding at December 31, 2008	5,287,175	\$ 9.17		
Granted	140,239	\$ 9.66		
Canceled	(199,932)	\$ 11.07		
Exercised	(60,924)	\$ 9.54		
Outstanding at December 31, 2009	5,166,558	\$ 9.10		
Granted	8,239	\$ 14.10		
Canceled	(12,575)	\$ 13.85		
Exercised	(758,660)	\$ 9.17		
Outstanding at December 31, 2010	4,403,562	\$ 9.09	4.4	
Granted	340,771	\$ 21.60		
Canceled	(211,323)	\$ 16.16		
Exercised	(1,605,273)	\$ 10.21		\$ 24,192
Outstanding at December 31, 2011	2,927,737	\$ 9.42	8.1	\$ 60,589
Exercisable at December 31, 2011	2,679,941	\$ 8.36	8.1	\$ 58,287

The intrinsic value is the amount by which the closing price of the Company's common stock on December 31, 2011 of \$30.11 or the price on the day of exercise exceeds the exercise price of the stock options multiplied by the number of shares. As of December 31, 2011, there was \$2.3 million of total unrecognized compensation cost related to non-vested stock options. That cost is expected to be recognized over a weighted-average period of 2.3 years.

***Restricted Stock and Performance Shares***

Shares of restricted stock generally vest over a period of three years. Compensation expense is measured at the grant date and recognized ratably over the vesting period. Performance share awards are granted to certain senior managers. Each performance share award is earned or forfeited based on the level of achievement by the Company of pre-tax operating income on a per share basis before performance share and cash bonus expense. The pay-out ranges from zero to 150% of the performance share award. For each performance share earned, a participant is awarded an equal number of shares of restricted stock. Any restricted stock awarded to a participant vests and ceases to be restricted stock in two equal installments on each of the second and third anniversaries of the date of grant of the applicable performance share award. Compensation expense for performance shares is measured at the grant date and recognized on a graded basis over the vesting period. The pay-out achievement was 146%, 150% and 150% of the performance award for 2011, 2010 and 2009, respectively. The following table reports performance share activity for the three years ended December 31, 2011:

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Performance year	2011	2010	2009
Share pay-out at plan, net of forfeitures of 14,563 for 2011	63,102	87,035	137,778
Actual share pay-out in following year	94,653	130,552	206,664
Fair value per share on grant date	\$ 21.56	\$ 14.29	\$ 7.94

**Table of Contents****Index to Financial Statements****MARKETAXESS HOLDINGS INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table reports restricted stock and performance share activity during the three years ended December 31, 2011:

	Number of Restricted Shares	Weighted- Average Grant Date Fair Value
Outstanding at December 31, 2008	647,994	\$ 12.14
Granted	659,520	
Canceled	(500)	
Vested	(272,875)	
Outstanding at December 31, 2009	1,034,139	\$ 9.64
Granted	549,264	
Performance share pay-out	206,664	
Canceled	(71,152)	
Vested	(474,051)	
Outstanding at December 31, 2010	1,244,864	\$ 11.23
Granted	435,548	
Performance share pay-out	130,552	
Canceled	(279,081)	
Vested	(574,172)	
Outstanding at December 31, 2011	957,711	\$ 15.69

As of December 31, 2011, there was \$9.9 million of total unrecognized compensation expense related to non-vested restricted stock and performance shares. That cost is expected to be recognized over a weighted-average period of 1.7 years.

**Table of Contents****Index to Financial Statements****MARKETAXESS HOLDINGS INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****11. Earnings Per Share**

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

	Year Ended December 31,		
	2011	2010	2009
(In thousands, except per share amounts)			
<b><u>Basic EPS</u></b>			
Net income	\$ 47,704	\$ 31,428	\$ 16,102
Amount allocable to common shareholders	100.0%	90.5%	90.5%
Net income applicable to common stock	\$ 47,704	\$ 28,427	\$ 14,569
Common stock voting	34,420	30,573	30,678
Common stock non-voting	2,586	2,586	2,586
Basic weighted average shares outstanding	37,006	33,159	33,264
Basic earnings per share	\$ 1.29	\$ 0.86	\$ 0.44
<b><u>Diluted EPS</u></b>			
Net income	\$ 47,704	\$ 31,428	\$ 16,102
Basic weighted average shares outstanding	37,006	33,159	33,264
Effect of dilutive shares:			
Series B Preferred Stock		3,500	3,500
Stock options, restricted stock and warrants	2,602	2,392	1,318
Diluted weighted average shares outstanding	39,608	39,051	38,082
Diluted earnings per share	\$ 1.20	\$ 0.80	\$ 0.42

Stock options, restricted stock and warrants totaling 0.3 million shares, 0.4 million shares and 3.6 million shares for the years ended December 31, 2011, 2010 and 2009, 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.

**12. 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 as of December 31, 2011 under such operating and capital leases were as follows:

Year Ending December 31,



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	Operating Leases	Capital Leases
	(In thousands)	
2012	\$ 1,805	\$ 336
2013	1,790	322
2014	1,756	42
2015	2,014	
2016	2,027	
2017 and thereafter	10,159	
Minimum lease payments	19,551	700
Less amount representing interest		52
	\$ 19,551	\$ 648

**Table of Contents**

**Index to Financial Statements**

**MARKETAXESS HOLDINGS INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Rental expense for the years ended December 31, 2011, 2010 and 2009 was \$2.5 million, \$2.7 million and \$2.7 million, respectively, and is included in occupancy expense in the Consolidated Statements of Operations. Rental expense has been recorded based on the total minimum lease payments after giving effect to rent abatement and concessions, which are being amortized on a straight-line basis over the life of the lease. The Company is contingently obligated for standby letters of credit amounting to \$1.7 million that were issued to landlords for office space.

In 2008, the Company assigned the lease agreement on a 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 this arrangement is \$1.4 million as of December 31, 2011.

The Company, through two regulated subsidiaries, 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 are then settled through a third-party clearing organization. The Company acts as intermediary on a riskless principal basis in these bond transactions by serving as counterparty to the two clients involved. 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. Under securities clearing agreements with the independent third party, the Company maintains a collateral deposit with the clearing broker in the form of cash. As of December 31, 2011, the amount of the collateral deposit included in securities and cash provided as collateral in the Consolidated Statements of Financial Condition was \$0.9 million. The Company 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 agreements between the Company and the independent clearing broker, the clearing broker has the right to charge the Company for losses resulting from a counterparty's failure to fulfill its contractual obligations. The losses are not capped at a maximum amount and apply to all trades executed through the clearing broker. At December 31, 2011, the Company had not recorded any liabilities with regard to this right.

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

**13. Segment Information**

As an electronic multi-dealer platform for the trading of fixed-income securities, the Company's operations constitute a single business segment. Because of the highly integrated nature of the financial markets in which the Company competes and the integration of the Company's worldwide business activities, the Company believes that results by geographic region or client sector are not necessarily meaningful in understanding its business.

**14. Retirement Savings Plans**

The Company, through its U.S. and U.K. subsidiaries, offers its employees the opportunity to invest in defined contribution plans. For the years ended December 31, 2011, 2010 and 2009, the Company contributed \$1.2 million, \$0.9 million and \$0.6 million, respectively, to the plans.

**Table of Contents**

**Index to Financial Statements**

**MARKETAXESS HOLDINGS INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**15. Customer Concentration**

During the years ended December 31, 2011, 2010 and 2009, no single client accounted for more than 10% of total revenue. One institutional investor client accounted for approximately 14.6%, 15.8% and 12.1% of trading volumes during the years ended December 31, 2011, 2010 and 2009, respectively. This institutional investor client also beneficially owns approximately 5% of the outstanding shares of the Company's common stock.

**16. Subsequent Events**

The Company has performed an evaluation of subsequent events through the date of issuance of the accompanying Consolidated Financial Statements.

**Table of Contents**

**Index to Financial Statements**

**Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.***

None.

**Item 9A. *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 December 31, 2011. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures are effective to ensure that information required to be disclosed by MarketAxess in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and to ensure that information is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

(b) *Management's Annual Report on Internal Control Over Financial Reporting.* See Item 8 of this Annual Report on Form 10-K.

(c) *Attestation Report of the Independent Registered Public Accounting Firm.* See Report of Independent Registered Public Accounting Firm included in Item 8 of this Annual Report on Form 10-K.

(d) *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 December 31, 2011 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.

**Item 9B. *Other Information.***

None.

**Table of Contents****Index to Financial Statements****PART III****Item 10. *Directors, Executive Officers and Corporate Governance.***

The information required by this item is incorporated herein by reference to the sections entitled Proposal 1 Election of Directors, Corporate Governance and Board Matters, Executive Officers and Other Matters Section 16(a) beneficial ownership reporting compliance in the Company's definitive Proxy Statement (the Proxy Statement) for the Annual Meeting of Stockholders to be held in the second quarter of 2012. The Company intends to file the Proxy Statement within 120 days after the end of its fiscal year (i.e., on or before April 30, 2012). The Company's Code of Conduct applicable to directors and all employees, including senior financial officers, is available on the Company's website at [www.marketaxess.com](http://www.marketaxess.com). If the Company makes any amendments to its Code of Conduct that is required to be disclosed pursuant to the Exchange Act, the Company will make such disclosures on its website.

**Item 11. *Executive Compensation.***

The information required by this item is incorporated herein by reference to the sections entitled Compensation Discussion and Analysis, Report of the Compensation Committee of the Board of Directors, Executive Compensation and Corporate Governance and Board Matters Directors compensation in the Company's Proxy Statement.

**Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.***

The information required by this item with respect to the security ownership of certain beneficial owners and management is incorporated herein by reference to the section entitled Security Ownership of Certain Beneficial Owners and Management in the Company's Proxy Statement.

**Equity Compensation Plan Information**

The following table provides certain information regarding common stock authorized for issuance under the Company's equity compensation plans as of December 31, 2011.

<b>Plan Category</b>	<b>Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights (a)</b>	<b>Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)</b>	<b>Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)</b>
Equity compensation plans approved by stockholders(1)	2,038,848	\$ 12.34	3,902,269
Equity compensation plans not approved by stockholders(2)	888,889	\$ 2.70	
<b>Total</b>	<b>2,927,737</b>	<b>\$ 9.42</b>	<b>3,902,269</b>

(1) These plans consist of the Company's 2004 Stock Incentive Plan (Amended and Restated Effective April 28, 2006), 2001 Stock Incentive Plan and 2000 Stock Incentive Plan.

(2) Represents the grant of a stock option made in February 2003 to a senior officer. This option is fully vested.

**Item 13. *Certain Relationships and Related Transactions, and Director Independence.***

The information required by this item is incorporated herein by reference to the section entitled "Certain Relationships and Related Party Transactions" in the Company's Proxy Statement.

**Table of Contents**

**Index to Financial Statements**

**Item 14. *Principal Accounting Fees and Services.***

The information required by this item is incorporated herein by reference to the section entitled "Proposal 2 - Ratification of Selection of Independent Registered Public Accounting Firm - Audit and other fees" in the Company's Proxy Statement.

**Table of Contents****Index to Financial Statements****PART IV****Item 15. Exhibits and Financial Statement Schedules.**

## (a) Financial Statements and Schedules

The financial statements are set forth under Item 8 of this Annual Report on Form 10-K. Financial statement schedules have been omitted since they are either not required, not applicable, or the information is otherwise included.

## (b) Exhibit Listing

<b>Number</b>	<b>Description</b>
3.1	Intentionally omitted
3.2*	Amended and Restated Certificate of Incorporation
3.3	Intentionally omitted
3.4*	Amended and Restated Bylaws
3.5	Form of Certificate of Designation of Series A Preferred Stock of MarketAxess Holdings Inc. (incorporated by reference to Exhibit 3.1 to the registrant's Registration Statement on Form 8-A dated June 3, 2008)
4.1*	Specimen Common Stock certificate
4.2*	Sixth Amended and Restated Registration Rights Agreement
4.3*	See Exhibits 3.2 and 3.4 for provisions defining the rights of holders of common stock and non-voting common stock of the registrant
10.1	Letter Agreement, dated January 19, 2011, by and between MarketAxess Holdings Inc. and Richard M. McVey (incorporated by reference to Exhibit 10.4 to the registrant's Current Report on Form 8-K dated January 14, 2011)#
10.2	Intentionally omitted
10.3*	Stock Option Agreement, dated February 7, 2003, by and between MarketAxess Holdings Inc. and Richard M. McVey#
10.4	Intentionally omitted
10.5	Intentionally omitted
10.6*	MarketAxess Holdings Inc. Amended and Restated 2000 Stock Incentive Plan#
10.7**	MarketAxess Holdings Inc. Amended and Restated 2001 Stock Incentive Plan#
10.8	Intentionally omitted
10.9*	Amendment to the MarketAxess Holdings Inc. 2001 and 2000 Stock Incentive Plans#
10.10(a)	MarketAxess Holdings Inc. 2004 Stock Incentive Plan (amended and restated effective April 28, 2006) (incorporated by reference to Appendix A to the registrant's Proxy Statement for its Annual Meeting for Stockholders held on June 7, 2006, filed on May 1, 2006)#
10.10(b)	Form of Incentive Stock Option Agreement pursuant to the MarketAxess Holdings Inc. 2004 Stock Incentive Plan (amended and restated effective April 28, 2006) (incorporated by reference to Appendix B to the registrant's Proxy Statement for its Annual Meeting of Stockholders held on June 7, 2006, filed on May 1, 2006)#



**Table of Contents****Index to Financial Statements**

<b>Number</b>	<b>Description</b>
10.10(c)	Form of Non Qualified Stock Option Agreement pursuant to the MarketAxess Holdings Inc. 2004 Stock Incentive Plan (amended and restated effective April 28, 2006) (incorporated by reference to Appendix C to the registrant's Proxy Statement for its Annual Meeting of Stockholders held on June 7, 2006, filed on May 1, 2006)#
10.11*	MarketAxess Holdings Inc. 2004 Annual Performance Incentive Plan#
10.12*	Form of Indemnification Agreement
10.13	Form of Performance Share Award Agreement for Richard M. McVey pursuant to the MarketAxess Holdings Inc. 2004 Stock Incentive Plan (as amended and restated effective April 28, 2006) (incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K dated January 15, 2008)#
10.14	Form of Performance Share Award Agreement for Employees other than Richard M. McVey pursuant to the MarketAxess Holdings Inc. 2004 Stock Incentive Plan (as amended and restated effective April 28, 2006) (incorporated by reference to Exhibit 10.2 to the registrant's Current Report on Form 8-K dated January 15, 2008)#
10.15	Form of Restricted Stock Agreement for Employees other than Richard M. McVey pursuant to the MarketAxess Holdings Inc. 2004 Stock Incentive Plan (as amended and restated effective April 28, 2006) (incorporated by reference to Exhibit 10.3 to the registrant's Current Report on Form 8-K dated January 15, 2008)#
10.16	Form of Incentive Stock Option Agreement for Employees other than Richard M. McVey pursuant to the MarketAxess Holdings Inc. 2004 Stock Incentive Plan (as amended and restated effective April 28, 2006) (incorporated by reference to Exhibit 10.4 to the registrant's Current Report on Form 8-K dated January 15, 2008)#
10.17	Form of Incentive Stock Option Agreement for Mr. McVey pursuant to the MarketAxess Holdings Inc. 2004 Stock Incentive Plan (as amended and restated effective April 28, 2006) (incorporated by reference to Exhibit 10.5 to the registrant's Current Report on Form 8-K dated January 15, 2008)#
10.18	Form of Restricted Stock Agreement for Richard M. McVey pursuant to the MarketAxess Holdings Inc. 2004 Stock Incentive Plan (Amended and Restated effective April 28, 2006) (incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K dated January 23, 2009)#
10.19(a)	MarketAxess Severance Pay Plan, effective August 1, 2006 (incorporated by reference to Exhibit 10.28(a) to the registrant's Form 10-K for the year ended December 31, 2009 filed on March 3, 2009)#
10.19(b)	Amendment No. 1 to MarketAxess Severance Pay Plan, dated as of December 17, 2009 (incorporated by reference to Exhibit 10.28(b) to the registrant's Form 10-K for the year ended December 31, 2009 filed on March 3, 2009)#
10.20	Guidelines for Restricted Stock Units granted under the MarketAxess Holdings Inc. 2004 Stock Incentive Plan (amended and restated effective as of April 28, 2006) (incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K dated January 19, 2011)#
10.21	Form of Restricted Stock Unit Agreement for employees other than Richard M. McVey pursuant to the MarketAxess Holdings Inc. 2004 Stock Incentive Plan (as amended and restated effective April 28, 2006) (incorporated by reference to Exhibit 10.2 to the registrant's Current Report on Form 8-K dated January 19, 2011)#
10.22	Form of Restricted Stock Unit Agreement for Richard M. McVey pursuant to the MarketAxess Holdings Inc. 2004 Stock Incentive Plan (as amended and restated effective April 28, 2006) (incorporated by reference to Exhibit 10.3 to the registrant's Current Report on Form 8-K dated January 19, 2011)#

**Table of Contents**

**Index to Financial Statements**

<b>Number</b>	<b>Description</b>
10.23	Incentive Stock Option Agreement, dated January 19, 2011, by and between MarketAxess Holdings Inc. and Richard M. McVey Incentive Stock Option Agreement, dated January 19, 2011, by and between MarketAxess Holdings Inc. and Richard M. McVey (incorporated by reference to Exhibit 10.6 to the registrant's Current Report on Form 8-K dated January 19, 2011)#
10.24	Restricted Stock Unit Agreement, dated January 19, 2011, by and between MarketAxess Holdings Inc. and Richard M. McVey (incorporated by reference to Exhibit 10.8 to the registrant's Current Report on Form 8-K dated January 19, 2011)#
21.1**	Subsidiaries of the Registrant
23.1**	Consent of PricewaterhouseCoopers LLP
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

\* Incorporated by reference to the identically-numbered exhibit to the registrant's Registration Statement on Form S-1, as amended (Registration No. 333-112718).

\*\* Filed herewith.

# Management contract or compensatory plan or arrangement.

**Table of Contents****Index to Financial Statements****SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MARKETAXESS HOLDINGS INC.

By: /s/ RICHARD M. McVEY  
Richard M. McVey  
Chief Executive Officer

Date: February 17, 2012

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

<b>Signature</b>	<b>Title(s)</b>	<b>Date</b>
/s/ RICHARD M. McVEY Richard M. McVey	Chief Executive Officer and Chairman of the Board of Directors (principal executive officer)	February 17, 2012
/s/ ANTONIO L. DeLISE Antonio L. DeLise	Chief Financial Officer (principal financial and accounting officer)	February 17, 2012
/s/ SHARON BROWN-HRUSKA Sharon Brown-Hruska	Director	February 17, 2012
/s/ ROGER BURKHARDT Roger Burkhardt	Director	February 17, 2012
/s/ STEPHEN P. CASPER Stephen P. Casper	Director	February 17, 2012
/s/ DAVID G. GOMACH David G. Gomach	Director	February 17, 2012
/s/ CARLOS HERNANDEZ Carlos Hernandez	Director	February 17, 2012
/s/ RONALD M. HERSCH Ronald M. Hersch	Director	February 17, 2012

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/s/ NICOLAS S. ROHATYN

Director

February 17, 2012

Nicolas S. Rohatyn

/s/ JOHN STEINHARDT

Director

February 17, 2012

John Steinhardt