MARKETAXESS HOLDINGS INC
Form 10-K
March 03, 2009

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2008

o **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	**52-2230784**
(State of incorporation)	*(IRS Employer Identification No.)*
140 Broadway, New York, New York	**10005**
(Address of principal executive offices)	*(Zip Code)*

(212) 813-6000
(Registrant s telephone number, including area code)

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

Title of Each Class:	**Name of Each Exchange on Which Registered:**
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 o No þ

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

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 þ No o

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. o

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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o Accelerated filer þ Non-accelerated filer o Smaller reporting company o
(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 o No þ

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, 2008 (the last business day of the registrant s most recently completed second fiscal quarter) was approximately $239.7 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 30,988,380 shares of common stock, 1,872,115 of which were held by affiliates, and 2,585,654 shares of non-voting common stock outstanding on that date.

At February 26, 2009, the aggregate number of shares of the registrant s common stock and non-voting common stock outstanding was 34,265,652.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s definitive proxy statement for the 2009 Annual Meeting of Stockholders are incorporated by reference into Items 10, 11, 12, 13 and 14 of Part III of this Form 10-K.

MARKETAXESS HOLDINGS INC.

2008 FORM 10-K ANNUAL REPORT

TABLE OF CONTENTS

		Page
	PART I	
Item 1:	Business	1
Item 1A:	Risk Factors	22
Item 1B:	Unresolved Staff Comments	36
Item 2:	Properties	36
Item 3:	Legal Proceedings	36
Item 4:	Submission of Matters to a Vote of Security Holders	37
	PART II	
Item 5:	Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	38
Item 6:	Selected Financial Data	41
Item 7:	Management s Discussion and Analysis of Financial Condition and Results of Operations	43
Item 7A:	Quantitative and Qualitative Disclosures about Market Risk	66
Item 8:	Financial Statements and Supplementary Data	68
Item 9:	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	99
Item 9A:	Controls and Procedures	99
Item 9B:	Other Information	99
	PART III	
Item 10:	Directors, Executive Officers and Corporate Governance	100
Item 11:	Executive Compensation	100
Item 12:	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	100
Item 13:	Certain Relationships and Related Transactions and Director Independence	100
Item 14:	Principal Accounting Fees and Services	100
	PART IV	
Item 15:	Exhibits and Financial Statement Schedules	101

EX-10.1.B: AMENDMENT TO EMPLOYMENT AGREEMENT
EX-10.14.B: AMENDMENT TO EMPLOYMENT AGREEMENT
EX-10.28.A: SEVERANCE PAY PLAN
EX-10.28.B: AMENDMENT NO.1 TO SEVERANCE PAY PLAN
EX-21.1: SUBSIDIARIES
EX-23.1: CONSENT OF PRICEWATERHOUSECOOPERS LLP
EX-31.1: CERTIFICATION
EX-31.2: CERTIFICATION
EX-32.1: CERTIFICATION
EX-32.2: CERTIFICATION

Table of Contents

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, will, or words of similar meaning and include, but are not limited to, statement 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 operates one of the leading platforms for the electronic trading of corporate bonds and certain other types of fixed-income securities. Through our platform, 649 active institutional investor client firms (firms that executed at least one trade in U.S. or European fixed-income securities through our electronic trading platform between January 2008 and December 2008) can access the aggregate liquidity provided by the collective interest of our 48 broker-dealer clients in buying or selling bonds through our platform. Our active institutional investor clients include investment advisers, mutual funds, insurance companies, public and private pension funds, bank portfolios and hedge funds. Our DealerAxess® trading service allows dealers to trade fixed-income securities and credit default swaps with each other on our platform. Through our Corporate BondTicker™ service, we provide fixed-income market data, analytics and compliance tools that help our clients make trading decisions. 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 multi-dealer request for quote (RFQ) trading platform allows our institutional investor clients to simultaneously request competing, executable bids or offers from our broker-dealer clients and execute trades with the broker-dealer of their choice from among those that choose to respond. We offer our broker-dealer clients a solution that enables them to efficiently reach our institutional investor clients for the distribution and trading of bonds. In addition to U.S. high-grade corporate bonds, European high-grade corporate bonds and emerging markets bonds, including both investment-grade and non-investment grade debt, we also offer our clients the ability to trade crossover and high-yield bonds, agency bonds and credit default 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. In recent years, an increasing number of corporate bond trading participants have utilized e-mail and other electronic means of 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

Table of Contents

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 RFQ platform, 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 36 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 do 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.

Our DealerAxess® anonymous cross-matching service, which we introduced in June 2006, allows our broker-dealer clients to transact U.S. corporate and emerging markets bond and CDS trades on our platform with other broker-dealer clients. Our broker-dealer clients can execute these trades in a more efficient manner and at lower transaction costs than in the traditional voice-brokered inter-dealer market. Although DealerAxess® is a completely segregated trading platform, it shares the same core technology as our client-to-dealer platform. MarketAxess Corporation, our U.S. subsidiary, acts as intermediary on a riskless principal basis in bond transactions between broker-dealer clients by serving as counterparty to the two broker-dealer clients involved. CDS transactions are conducted on the DealerAxess® platform on a name give-up basis and are directly settled between the two trading counterparties.

Our client base includes 48 broker-dealers, including the majority of the leading broker dealers in global fixed-income trading, and 649 active institutional investor firms. Our broker-dealer clients accounted for approximately 97% of the underwriting of newly-issued U.S. high-grade corporate bonds and approximately 68% of the underwriting of newly issued European high-grade corporate bonds in 2008. 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. Our broker-dealer clients currently trade fixed-income securities by traditional means including telephone, e-mail and proprietary single-dealer systems in addition to our electronic trading platform and we expect them to continue to do so in the future. We believe that these 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 6.6% of the total U.S. high-grade corporate bond volume, excluding convertible bonds, for 2008 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. We have not identified a reliable source of data relating to the size of the other markets we serve and therefore we are unable to accurately determine the total volume of secondary trading of these bonds or the portion of such trading conducted on

our platform.

Table of Contents

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, 2008 there were approximately $33.2 trillion of fixed-income securities outstanding in the U.S. market, including $6.1 trillion of U.S. corporate bonds. We are primarily active in six segments of the credit markets within the global fixed-income securities market: U.S. high-grade corporate bonds; European high-grade corporate bonds; emerging markets bonds; crossover and high-yield bonds; agency bonds; and CDS.

The past 18 months has been a period of significant turmoil in the U.S. and European credit markets, especially in short-term funding and floating rate note instruments. A widespread retrenchment in the credit markets resulted in increased credit spreads and significantly higher credit spread volatility across a wide range of asset classes. Credit yield spreads in U.S. corporate bonds, as measured by the Credit Suisse Liquid U.S. Corporate Index (LUCI), increased from 1.0% over U.S Treasuries in June 2007 to 5.3% in December 2008. Credit spread volatility in U.S. corporate bonds, as measured by the LUCI Index, increased from 0.7% in June 2007 to 11.7% in December 2008. The average daily trading volume of U.S. high-grade corporate bonds for the year ended December 31, 2008, as measured by TRACE, decreased by 9.0% compared to 2007. We believe the resultant lack of liquidity in the credit markets led institutional investors to reduce overall bond trading activity and conduct a higher percentage of their trades directly with their broker-dealer counterparties via the telephone, resulting in lower volumes on our platform. We also believe that a stabilization of credit market conditions, at higher overall levels of credit spreads, is likely to favorably impact the volume of trades conducted over our platform.

U.S. High-Grade Corporate Bond Market

The total amount of U.S. corporate bonds outstanding has grown from $3.0 trillion as of December 31, 1999 to $6.1 trillion as of September 30, 2008. The average daily trading volume of U.S. corporate bonds (investment grade and high yield), as measured by TRACE, has decreased from approximately $17.9 billion in 2002 (the first calendar year for which such data are available) to $12.1 billion in 2008. We believe that this decline in average daily trading volumes is due to cyclical credit market conditions, including the recent turmoil in the credit markets.

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. Since February 2005, the list of TRACE-eligible bonds has included 23,000 unique securities, representing 99% 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. According to the International Swaps and Derivatives Association, Inc. (ISDA), the total notional amount of CDS outstanding grew rapidly from approximately

Table of Contents

$2.2 trillion at December 31, 2002 to approximately $62.2 trillion at December 31, 2007. However, during 2008, growth in the CDS market stagnated due to concern over the risks associated with these products, in particular the counterparty credit risks. As a result, the notional amount outstanding declined in the first half of the year to $54.6 trillion as of June 30, 2008.

Growth in the total amount of debt outstanding The total size of the U.S. high-grade corporate bond market has increased significantly since 1998, when approximately $611 billion gross amount of new bonds were issued. By 2007, the amount of gross corporate issuance had grown to $1,128 billion, as illustrated in the chart below. During 2008, high-grade corporate bond issuance declined to $706 billion as risk aversion among corporate bond investors limited the ability of corporate bond issuers across a wide range of industries, in particular the financial services industry, to issue new corporate bonds.

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:

Adoption of the Euro The adoption of the Euro as the common currency in most European Union countries has reduced the importance of currency as an investment selection criterion and elevated the

Table of Contents

importance of the credit risk of particular issuers. As a result, institutional investors have exhibited a greater interest in investing in a broader range of bonds issued by entities domiciled outside of their home countries.

Regulatory environment Certain European Union countries have eased restrictions that required institutional investors to invest primarily in domestic securities. This has provided European institutional investors with increased flexibility to invest in securities issued by entities domiciled in other countries within the European Union. On November 1, 2007, the Markets in Financial Instruments Directive (MiFID) came into effect. MiFID is designed to further harmonize the financial markets of the member states of the European Union and introduces new pre- and post-trade transparency requirements.

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: 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 the fourth quarter of 2008 as the turmoil in the credit markets and the world-wide recession impacted the emerging markets. As a result, emerging markets bond prices fell steeply, with the JPMorgan emerging markets sovereign external debt and corporate bond indices down 10.9% and 16.2%, respectively, during 2008.

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 has grown from $130.9 billion for the year ended December 31, 2003 to approximately $136.3 billion for the year ended December 31, 2007. During 2008, high-yield corporate bond issuance declined to $52.2 billion primarily due to the risk aversion among corporate bond investors that severely limited the ability of high-yield issuers to raise new debt.

FINRA began publicly disseminating real-time price information on approximately 12,000 high-yield corporate bond issues in 2005. 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 disseminated set was expanded on February 1, 2005 to include reporting of certain transactions on a delayed basis. The average daily trading volume of high-yield bonds reported by FINRA for the year ended December 31, 2008 was $4.0 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 has grown from $1.9 trillion as of December 31, 2000 to $3.2 trillion as of September 30, 2008. The Federal Reserve Bank of New York

reported average daily trading volume in federal agency and government sponsored enterprise coupon securities (excluding mortgage-backed securities) for 2008 of $19.9 billion.

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

Table of Contents

assume credit exposure associated with a broad range of issuers of fixed-income securities and other debt obligations. They are often designed to hedge other exposures and can be tied to particular events, such as a default, bankruptcy or ratings downgrade. CDS can provide increased flexibility and liquidity for investors and lenders to diversify their credit risk. Approximately half of the volume traded in CDS is index products, which give exposure to a defined basket of underlying CDS. The remainder is traded in single-name CDS. The trading volumes and notional amount outstanding in CDS transactions grew rapidly between 2002 and 2007. However, during 2008 growth in the CDS market stagnated due to concern over the risks associated with these products, in particular the counterparty credit risks. As a result, the notional amount of CDS outstanding decreased in the first half of 2008 from $62.2 trillion as of December 31, 2007 to $54.6 trillion as of June 30, 2008. To address the counterparty credit concerns, structural changes have been proposed for the CDS market that include the creation of CDS clearing houses that will serve as central counterparties for CDS transactions. We believe that the introduction of the clearing houses is likely to result in more standardized contracts and greater price transparency. The total notional amount of outstanding CDS, is detailed in the chart below.

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 48, including the majority of the leading broker-dealers in global fixed-income trading, and 649 active institutional investor firms. We believe these broker-dealers represent the principal source of secondary market

Table of Contents

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 if we continue to grow the participation of our broker-dealer and institutional investor clients on our electronic trading platform, the benefits in liquidity on the platform to both broker-dealers and institutional investors will be amplified, further motivating them to use our platform. The number of our active institutional investor clients for the past seven years has been as follows:

Our total trading volume over the past seven years is indicated below:

Our volume in U.S. high-grade corporate bonds grew from approximately 6.4% of total U.S. high-grade corporate bond volume, excluding convertible bonds, in 2004 as reported by FINRA TRACE, which includes inter-dealer and retail trading as well as trading between institutional investors and broker-dealers, to approximately 9.4% in 2007. However, following the turmoil in the credit markets, our market share in 2008 declined to approximately 6.6%. We believe the resultant lack of liquidity in the credit markets led institutional investors to reduce overall bond trading activity and conduct a higher percentage of their trades directly with their broker-dealer

Table of Contents

counterparties via the telephone, resulting in lower volumes on our platform. Our approximate market share from 2004 to 2008 is shown in the chart below:

We have not identified a reliable source of data relating to the size of the other markets we serve and therefore we are unable to accurately determine the total volume of secondary trading of these bonds or the portion of such trading conducted on our platform.

Because FINRA TRACE began identifying inter-dealer as opposed to client-to-dealer trades in November 2008, we will be able to identify the portion of client-to-dealer trading conducted on our platform in future periods.

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 prior to 2008, the range of competitive spread-to-Treasury responses was, on average, approximately 10 basis points (a basis point is 1/100 of 1% in yield), although in 2008 that range widened to 35 basis points. 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 $750.00.

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 $80 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

Table of Contents

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.

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 information being manually entered 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. These data represent 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.

Table of Contents

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 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 TRACE data with associated analytical tools that are not otherwise available. Corporate BondTicker™ provides end-of-day CDS pricing data combined with CDS analytics and screening tools that incorporate cash bond and equity market data. In November 2008, we introduced an alliance with Markit Group Limited (Markit) enabling institutional investors to use Markit Quotes within the MarketAxess data and trading system to observe indicative CDS and corporate bond prices. In addition, Corporate BondTicker™ provides indicative prices for secondary loans, through arrangements with certain of our broker-dealer clients, and independent third-party credit research. 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.

In November 2006, we added a comprehensive set of reports designed to review and monitor credit trading activity for institutional investor clients. It utilizes extensive 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.

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.

Technology Products and Services. In addition to our trading platform, we provide a suite of technology products. In November 2007, we formed a new subsidiary, MarketAxess Technologies Inc., which acquired certain assets of Trade West Systems, LLC (TWS). TWS is an Utah-based financial software and technology services provider focused on providing gateway adapters for connecting order management systems and trading systems to fixed-income trading venues. In March 2008, we acquired Greenline Financial Technologies, Inc. (Greenline), an Illinois-based provider of integration, testing and management solutions for FIX-related products and services designed to optimize the electronic trading of fixed-income, equity and other exchange-based products.

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. Our management team is comprised of executives with an average of 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

Table of Contents

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 2008, *Credit* magazine recognized MarketAxess as Best Multi-Dealer Credit Default Swaps Trading Platform for the second consecutive year, Best Multi-Dealer Corporate Bond Trading Platform for the fourth consecutive year and Best Market Innovation in the U.S. We were recognized as the Best Multi-Dealer Credit Default Swaps Trading Platform in 2008 in Europe.

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;
- DealerAxess®, an innovative dealer-to-dealer electronic trading platform for U.S. high-grade corporate bonds, emerging market bonds and CDS; 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

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 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 number of active European institutional investor clients using our U.S. 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. As an example, in 2005 and 2006, respectively, we introduced CDS index trading and CDS single-name trading on our platform. Due in part to our

highly scalable systems, we believe we will be able to enter new markets efficiently.

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, in June 2006 we introduced our DealerAxess® service, which allows our broker-dealer clients to transact U.S. corporate bond, emerging markets bond and CDS trades on our platform with

Table of Contents

other broker-dealer clients and, in 2008, we 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. As an example, in the fourth quarter of 2008, we introduced public Market Lists for corporate bonds that give institutional investors the ability to display live requests for bids and offers anonymously to the entire MarketAxess trading community.

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. In November 2006, we introduced compliance reporting tools for our institutional investor clients that assist them in monitoring best execution requirements for fixed-income trades. In November 2008, we introduced an alliance with Markit enabling institutional investors to use Markit Quotes. In December 2008, we announced an agreement with Investment Technology Group (ITG) to provide integrated access to our fixed-income compliance suite and to ITG s equities transaction cost analysis product. 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. In November 2007, we acquired TWS, a financial software and technology services provider focused on providing gateway adapters for connecting order management systems and trading systems to fixed-income trading venues. In March 2008, we acquired Greenline, an Illinois-based provider of integration, testing and management solutions for FIX-related products and services.

Pursue Strategic Alliances and Select Acquisitions

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. Examples of this are our alliances with Markit and ITG and our acquisitions of TWS and Greenline.

MarketAxess Electronic Trading Platform

Client-to-Dealer 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 2008 trading volume in the U.S. high-grade corporate bond market was $134.6 billion.

In the U.S. high-grade corporate bond market, 36 broker-dealers utilize our platform, including 17 of the top 20 broker-dealers as ranked by 2008 investment grade new-issue underwriting volume. We added 19 regional and diversity dealers during 2008 but lost two dealers through bankruptcy and consolidation in the broker-dealer

Table of Contents

community. Our broker-dealer clients accounted for approximately 97% of the underwriting of newly-issued U.S. high-grade corporate bonds in 2008. 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 is a multi-dealer disclosed counterparty model, which 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. By disclosing the counterparties, the inquiry system on which our trading platform is based 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 overwhelming 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 bids and offers 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, commenced trading operations in August 2001. MarketAxess Europe Limited received Financial Services Authority (FSA) regulatory approval and began to offer European secondary trading functionality in U.S. dollar- and Euro-denominated European corporate bonds to our broker-dealer and institutional investor clients in September 2001. In 2003, we added trading in other European high-grade corporate bonds, including bonds issued in Pounds Sterling and floating rate notes. In 2008, we introduced trading in European government bonds. As on our U.S. electronic trading platform, all trading on our European platform is done using a multi-dealer disclosed counterparty model. We offered the first platform in Europe with this capability for corporate bonds.

In the Eurobond credit market, defined as including European high-grade, high yield and government bonds, 18 broker-dealers utilize our platform, including 17 of the top 20 broker-dealers as ranked by 2008 European investment grade new-issue underwriting volume. On a typical day, institutional investors on our European corporate bond trading platform have access to 10,000 line items of commingled inventory, representing an aggregate of approximately $36 billion of indicative bids and offers. 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 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 2008 trading volume in the Eurobond market was $35.8 billion and principally related to trading in European high-grade corporate bonds.

Emerging Markets Bonds

Twenty-three of our U.S. broker-dealer clients use our platform to trade emerging markets bonds. 248 active institutional investor clients (firms that executed at least one trade through our electronic trading platform between January 2008 and December 2008) utilize our electronic trading platform to trade emerging markets bonds. These institutional investor clients are located in both the U.S. and Europe. The emerging markets countries whose bonds were most frequently traded on our platform in 2008 were Brazil, Mexico, Venezuela, Russia and Argentina.

Table of Contents

In December 2007, we introduced local markets emerging market debt trading, which allows our institutional investor clients to transact Euroclear-eligible local currency denominated bonds issued by sovereign entities or corporations in countries that include Mexico, Brazil and Argentina.

Crossover and High-Yield Bonds

Thirty 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

Seventeen 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 launched CDS index trading on our platform in September 2005 and added the capacity to trade lists of single-name CDS in November 2006. In addition to the trading features, the index trading platform also offers STP connectivity for dealers and institutional investor clients. Six of our U.S. broker-dealer clients are live on our platform to trade CDS investment grade indices, nine for emerging market CDS indices and single-name lists and six for European credit CDS indices. In November 2008 we introduced an alliance with Markit enabling institutional investors to use Markit Quotes within the MarketAxess data and trading system to observe indicative CDS and corporate bond prices. Institutional investors can launch MarketAxess trade inquiries directly from Markit Quotes.

Dealer-to-Dealer Markets

Emerging Markets Bonds

Ten of our broker-dealer clients use our DealerAxess® platform to trade emerging markets bonds with each other. The platform is primarily utilized for transactions in U.S dollar-denominated bonds issued by Latin American governments. DealerAxess® provides live inter-dealer markets utilizing proprietary cross-matching technology. Although DealerAxess® is a completely segregated trading platform, it uses the same core technology as our client-to-dealer platform. The platform provides a documented record of orders and executed trades with reporting that enables broker-dealer clients to track, analyze and evaluate their inter-dealer trading. Straight-through processing is available to reduce manual tasks and lower the number of errors. Bond trades on DealerAxess® are conducted with MarketAxess as riskless principal. Trades are cleared and settled by an independent clearing broker.

Credit Default Swaps

We launched CDS single-name trading for U.S. high-grade and index and single-name trading for emerging markets on our platform in May 2007. Ten of our U.S. broker-dealer clients are live on our platform to trade U.S. high-grade single-name CDS and 10 of our U.S. broker-dealer clients are live on our platform to trade emerging markets index and single-name CDS. CDS transactions are conducted on the DealerAxess® platform on a name give-up basis and are directly settled between the two trading counterparties.

U.S. High-Grade Corporate Bonds

Our DealerAxess® platform has not been used for U.S. high-grade corporate bond trades since the second quarter of 2008. The majority of inter-dealer trading in U.S. high grade corporate bonds is currently conducted by telephone

through voice brokers.

Table of Contents

Key Trading Functionalities

We currently offer both disclosed inquiry trading on our client-to-dealer platform and an anonymous cross-matching style of trading on our dealer-to-dealer platform. Our DealerAxess® dealer-to-dealer trading platform provides anonymous live markets with executable bids and offers posted by participating dealers that are matched using proprietary cross-matching technology. The key trading functionalities on our client-to-dealer trading platform are detailed below.

Single Inquiry Trading Functionality

We currently offer institutional investors the ability to request bids or offers in a single inquiry from up to 36 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 eight 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 bonds, with the number of different bonds on each list varying between 8 and 40 items 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 bid and offer 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.

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,

Table of Contents

including direct TRACE feeds. In addition, Corporate BondTicker™ provides independent third-party credit research as well as indicative prices for secondary markets in loans and CDS.

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 U.S. Securities and Exchange Commission (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 from institutional investor clients 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.*

In November 2006, we added a comprehensive set of reports designed to review and monitor credit trading activity for institutional investor clients. It utilizes extensive 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.

In November 2007, we added end-of-day CDS pricing data to Corporate BondTicker™ that is provided by Credit Market Analysis Ltd. End-of-day screening tools combine the CDS data with market data from cash bonds and equities to provide relative value analysis to our clients.

In 2008, we launched European BondTicker™, which displays market standard pricing data with MarketAxess enrichments. The product covers both European and Sterling denominated debt and provides the user with both price and MarketAxess-calculated spreads to benchmark government bonds. European BondTicker™ displays intra-day indicative prices for more than 2,300 issues, including government bonds, state-guaranteed bonds and corporate bonds. The market standard pricing data is comprised of high quality price quotes from leading financial institutions. Many of the same features available on Corporate BondTicker™ are also available on European BondTicker™.

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

Table of Contents

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 2008. The number of investor client STP connections increased to 198 as of December 31, 2008 from 134 as of December 31, 2007. In our U.S. high-grade corporate bond business between 2006 and 2008, the number of trades completed through our straight-through processing capabilities increased from 32,056 to 96,957. The number of online allocations increased from 83,501 to 100,495 between 2006 and 2008.

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

In November 2007, we formed a new subsidiary company, MarketAxess Technologies Inc., which acquired TWS, a financial software and technology services company focused on providing gateway adapters to connect order management and trading systems to fixed-income trading venues.

In March 2008, we acquired Greenline, an Illinois-based provider of integration, testing and management solutions for FIX related products and services. The Financial Information eXchange (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 their 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 charged based upon the complexity and extent of the services provided.

Table of Contents

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. These include: Thomson TradeWeb, a multi-dealer to institutional investor trading platform that has historically focused on government bond trading; Bloomberg, which provides electronic trading functionality; and the New York Stock Exchange, which launched a retail corporate bond trading platform in April 2007. In 2002, Thomson TradeWeb launched an electronic corporate bond trading platform. In January 2008, nine dealers purchased a 15% stake in TradeWeb s established markets and provided additional funding for asset class expansion. 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. We believe that we are currently the only platform primarily focused on multi-party disclosed trading of credit products between broker-dealers and institutional investors, though others have or may seek to expand their product offerings to compete in this market. 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. For instance, our DealerAxess® platform competes with services offered by inter-dealer brokerage firms including BGC Partners L.P., Creditex (a wholly owned subsidiary of Intercontinental Exchange), GFI Group Inc., ICAP plc and Tullet Prebon plc.

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 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 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, or may in the future make investments in or enter into agreements with other businesses that directly or indirectly compete with us.

Table of Contents

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;
- magnitude and frequency of price improvement;
- facilitating 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 we compete favorably with respect to these factors and continue to proactively build technology solutions that serve the needs of the credit markets.

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

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, 198 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 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 dedicated high-speed T-1 communication lines 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. Through a secure, single sign-on, our clients are able to access our electronic trading platform. 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,

Table of Contents

elements of our electronic trading platform, Web site and other proprietary materials are protected by copyright laws. We currently have six patent applications pending, covering certain aspects of our business.

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 or 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.

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 upon the extent to which it is characterized as providing a regulated investment service.

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

Table of Contents

In May 2003, we incorporated a Canadian subsidiary, MarketAxess Canada Limited. It is registered as an Alternative Trading System under the Securities Act of Ontario and is a member of the Investment Industry Regulatory Organization of Canada.

Employees

As of December 31, 2008, we had 185 employees, 158 of whom were based in the U.S. and 27 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. 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.
140 Broadway
New York, NY 10005
Attn: Investor Relations

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

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

Item 1A. ***Risk Factors.***

Risks Related to Our Business

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 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 potential 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 half of our revenues from secondary trading in U.S. high-grade corporate bonds. The percentage of our commissions from such trading declined from 57.3% in 2006 to 50.0% in 2008. 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.

Table of Contents

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

We expect to encounter 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;

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, 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; 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.

Further decreases in trading volumes in the fixed-income markets generally or on our platform would further harm our business and profitability.

We have experienced significant decreases in overall trading volume over the past 18 months, and may continue to experience 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, 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 and other revenue. During recent periods of increased volatility in credit markets, the use of electronic trading platforms by market participants decreased dramatically as institutional investors sought 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 further decline in trading volumes on our platform for any reason will continue to have a material adverse effect on our business, financial condition and results of operations.

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

We anticipate that from time to time we will 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.

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. Furthermore, resistance to the new fee plans by our broker-dealer or institutional investor clients or a reduction in the number of dealers participating on our platform could have an adverse impact on our distribution fees and otherwise have a material adverse effect on our business, financial condition and results of operations.

Table of Contents

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.

In June 2006, we began executing riskless principal bond transactions between our broker-dealer clients on the DealerAxess® platform, and during 2008 we extended our riskless principal role to include the execution of certain bond transactions between institutional investor and broker-dealer clients. We (through our subsidiary, MarketAxess Corporation) act as an intermediary in these transactions 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. 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, whether on the DealerAxess® platform or otherwise. We are exposed to the risk that third parties that owe us money, securities or other assets will not perform their obligations. These parties may default on their obligations to us due to bankruptcy, lack of liquidity, operational failure or other reasons. Adverse movements in the prices of securities that are the subject of these transactions can increase our risk. Where the unmatched position or failure to deliver is prolonged there may also be regulatory capital charges required to be taken by us. The policies and procedures we use to manage this credit risk are new and untested. There can be no assurance that these policies and procedures will effectively mitigate our exposure to credit risk.

We are dependent on our broker-dealer clients, three of which were also our stockholders as of January 1, 2008, 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 which 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 would 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 derive a significant percentage of our total revenues, and an even greater percentage of our commissions, from broker-dealer clients who are also our stockholders.

We have historically earned a substantial portion of our commissions from broker-dealer clients that were our stockholders. For the year ended December 31, 2008, $12.5 million or 17.0% of our commissions, for the year ended December 31, 2007, $31.4 million or 39.2% of our commissions, and for the year ended December 31, 2006, $35.6 million or 49.9% of our commissions, were generated by these stockholder broker-dealer clients. None of our broker-dealer clients is contractually or otherwise obligated to continue to use our electronic trading platform. Reduced involvement of these broker-dealer clients due to the reduction in the level of their equity ownership may

cause them to reduce or discontinue their use of our electronic trading platform and other services, which could negatively impact the use of our platform by our institutional investor clients. The loss of, or a significant reduction of, participation on our platform by these broker-dealer clients may have a material adverse effect on our business, financial condition and results of operations.

Table of Contents

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

Due to the continuing global credit crisis, the unpredictability of our industry and our evolving business model, we have and may continue to experience significant fluctuations in our operating results. We base our current and future expense levels and our investment plans on estimates of future revenues and future rate of growth. Our expenses and investments are, to a large extent, fixed and we expect that these expenses will increase in the future. We may not be able to adjust our spending quickly enough if our revenues fall short of our expectations.

Our revenues and operating results may also fluctuate due to other factors, including:

- 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;
- 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,

Table of Contents

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 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 and new business models. If new industry standards and practices emerge, 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;

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.

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.

Table of Contents

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.

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, 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 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 or other armed hostility; and

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

Table of Contents

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;

slower response times or delays in our clients trade execution;

incomplete or inaccurate accounting, recording or processing of trades;

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.

If our security measures are breached and unauthorized access is obtained to our electronic trading platform, broker-dealers and institutional investors may become hesitant to use, or reduce or stop their use of, our trading platform.

Our electronic trading platform involves the storage and transmission of our clients proprietary information. The secure transmission of confidential information over public networks is a critical element of our operations. Security breaches could expose us to a risk of loss of this information, 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. 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 protect against the threat of security breaches or to alleviate problems, including reputational harm and litigation, caused by any breaches. Although we intend to continue to implement industry-standard security measures, we cannot assure you that those measures will be

sufficient.

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

Table of Contents

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 filed six patent applications covering aspects of our technology and/or business, but can make no assurances that any such patents will be issued or, if issued, will protect our business and processes from competition. 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.

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.

Table of Contents

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. They may also result in goodwill and other intangible assets that are subject to impairment tests, which could result in future impairment charges as was the case in 2008 with the write-down of certain TWS-related intangible assets.

We may be limited in our use of our U.S. net operating loss carryforwards.

As of December 31, 2008, we had U.S. net operating loss carryforwards of approximately $103.3 million that will begin to expire in 2019. A net operating loss carryforward enables a company to apply net operating losses incurred during a current period against future periods profits in order to reduce tax liability in those future periods.

Section 382 of the Internal Revenue Code provides that when a company undergoes an ownership change, that company s use of its net operating losses is limited annually in each subsequent year. An ownership change occurs when, as of any testing date, the sum of the increases in ownership of each shareholder that owns five percent or more of the value of a company s stock as compared to that shareholder s lowest percentage ownership during the preceding three-year period exceeds 50 percentage points. For purposes of this rule, certain shareholders who own less than five percent of a company s stock are aggregated and treated as a single five-percent shareholder.

In 2000 and 2001, MarketAxess Holdings Inc. and MarketAxess Corporation had an ownership change. Net operating loss carryforwards of $37.6 million existed as of the date of ownership change. However, only $5.2 million

Table of Contents

are deemed utilizable and recognized in the net operating loss carryforward figure. MarketAxess Holdings Inc. and Greenline Financial Technologies, Inc. experienced ownership changes in 2007 and 2008, respectively. We do not believe that these ownership changes significantly impact our ability to utilize existing or acquired net operating loss carryforwards.

The issuance or repurchase of a significant number of shares of stock or purchases or sales of stock by significant shareholders could result in an additional ownership change. For, example, we may issue a substantial number of shares of our stock in connection with offerings, acquisitions and other transactions in the future and we could repurchase a significant number of shares in connection with a stock repurchase program, although no assurance can be given that any such offering, acquisition, other transaction or repurchase program will be undertaken. In addition, the exercise of outstanding options to purchase shares of our common stock may require us to issue additional shares of our common stock. The extent of the actual future use of our U.S. net operating loss carryforwards is subject to inherent uncertainty because it depends on the amount of otherwise taxable income we may earn. We cannot give any assurance that we will have sufficient taxable income in future years to use any of our federal net operating loss carryforwards before they would otherwise expire.

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 options, performance shares and restricted stock. 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 continues to be competitive despite overall economic conditions, as electronic commerce has experienced 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.

Termination of employees may result in additional costs

We are currently involved in an arbitration case filed by a former employee. We believe that the claims are without merit and we intend to vigorously defend against them. However, an adverse settlement or judgment related to these or similar types of claims may have an adverse effect on our financial condition or results of operations.

Table of Contents

Regardless of the outcome of this case, we may incur significant expense and management time dealing with these and other such claims. In addition, we have paid severance amounts in connection with the involuntary termination of employees in the past and may offer severance packages in connection with future reductions in force, if any.

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.

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;

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 events in the financial industry over the past 18 months, there is a greater likelihood of legislative and regulatory action to increase government oversight of the financial services industry. 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. We cannot predict the extent to which any future regulatory changes may adversely affect our business and operations.

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®, is regulated as an alternative trading system subject to Regulation ATS.

As an enterprise founded and historically controlled by broker-dealer competitors, 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. In November 2000, we received a Civil Investigative Demand from the U.S. Department of Justice in

Table of Contents

connection with the Antitrust Division s investigation of electronic bond and other consortia trading systems. After compliance with all information requests, we received notice from the U.S. Department of Justice in 2004 that the investigation had been officially closed. As the use of our electronic trading platform grows and represents a greater share of the trading volume of fixed-income securities, the risk that other regulatory investigations could commence in the future increases. Additionally, the involvement of individuals affiliated with certain of our broker-dealer clients on our Board of Directors and as stockholders may subject us to increased regulatory scrutiny of our business. 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 expect to continue to expand our operations outside of the United States; however, we may face special economic and regulatory challenges that we may not be able to meet.

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 outside the United States. 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 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 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;

Table of Contents

acquire complementary companies or technologies;

enter into strategic alliances;

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

respond to unanticipated capital requirements.

We may not be able to obtain additional financing, if needed, in amounts or on terms acceptable to us, if at all, particularly in light of the recent economic turmoil which has, among other consequences, led to a depression in stock prices and the tightening of available credit. Our existing investors, including our broker-dealer clients and their affiliates, have no obligation to make further investments in us, and we do not anticipate that they will do so. 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.

The requirements of being a public company may strain our resources, divert management s attention and affect our ability to attract and retain qualified board members.

As a public company, we are subject to the reporting requirements of the Securities Exchange Act of 1934, the Sarbanes-Oxley Act of 2002 and NASDAQ rules promulgated in response to the Sarbanes-Oxley Act. The requirements of these rules and regulations have imposed legal and financial compliance costs, made some activities more difficult, time-consuming or costly and may in the future place undue strain on our systems and resources. The Securities Exchange Act of 1934 requires, among other things, that we file annual, quarterly and current reports with respect to our business and financial condition. The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal controls for financial reporting. In order to maintain and improve the effectiveness of our disclosure controls and procedures and internal control over financial reporting, significant resources and management oversight are required. As a result, management s attention may be diverted from other business concerns, which could have a material adverse effect on our business, financial condition and results of operations.

These rules and regulations could also make it more difficult for us to attract and retain qualified independent members of our Board of Directors. Additionally, we expect these rules and regulations to make it more difficult and more expensive for us to obtain director and officer liability insurance. We may be required to accept reduced coverage or incur substantially higher costs to obtain coverage. NASDAQ rules also require that a majority of our Board of Directors and all of the members of certain sub-committees of the Board of Directors consist of independent directors. We cannot assure you that our Board of Directors will continue to include a majority of independent directors to comply with the requirements of these rules.

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 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.

Risks Related to Our Industry

If the use of electronic trading platforms does not continue to increase, we will 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

Table of Contents

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.

Economic, political and market factors beyond our control could reduce demand for our services and harm our business, and our profitability 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 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 and elsewhere;

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

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.

Risks Related to Our Common Stock

Market volatility 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.

Table of Contents

We do not expect to pay any dividends on our common stock for the foreseeable future.

We do not anticipate that we will pay any dividends to holders of our common stock in the foreseeable future. Accordingly, investors must 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 stockholders rights plan, amended and restated certificate of incorporation, amended and restated bylaws or 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.

Our Board of Directors has adopted a stockholders rights plan, commonly referred to as a poison pill. This plan entitles existing stockholders to rights, including the right to purchase shares of common stock, in the event of an acquisition of 20% or more of our outstanding common stock. Our stockholders rights plan could prevent stockholders from profiting from an increase in the market value of their shares as a result of a change of control of us by delaying or preventing a change of control.

In addition, provisions of our charter documents 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 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 severance agreements with several employees 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 140 Broadway, New York, New York, where we lease 29,300 square feet under a lease expiring in February 2010. We also collectively lease approximately

22,900 square feet for our other office locations in the U.S. and the United Kingdom under various leases expiring between May 2010 and March 2019. In addition, we lease another 17,000 square feet at 350 Madison Avenue, New York, New York, which we currently sublet; the lease and sublease expire in April 2011.

Item 3. ***Legal Proceedings.***

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

Table of Contents

party to the arbitration proceeding. FINRA consolidated all of the former employee s claims into a single proceeding.

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

The FINRA hearing, which had been scheduled for early February 2009, has been postponed until a new hearing date can be rescheduled. We believe that these claims are wholly without merit and have vigorously defended against them. Based on currently available information, we believe that the likelihood of a material loss is not probable. Accordingly, no amount has been provided in the financial statements. However, arbitration is subject to inherent uncertainties and unfavorable rulings could occur.

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

None.

Table of Contents

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:

2008:	**High**	**Low**
January 1, 2008 to March 31, 2008	$ 12.28	$ 8.83
April 1, 2008 to June 30, 2008	$ 10.35	$ 7.47
July 1, 2008 to September 30, 2008	$ 10.78	$ 6.19
October 1, 2008 to December 31, 2008	$ 8.16	$ 4.31

2007:	**High**	**Low**
January 1, 2007 to March 31, 2007	$ 16.95	$ 12.41
April 1, 2007 to June 30, 2007	$ 18.20	$ 16.00
July 1, 2007 to September 30, 2007	$ 19.32	$ 14.00
October 1, 2007 to December 31, 2007	$ 16.34	$ 11.70

On February 26, 2009, the last reported closing price of our common stock on the NASDAQ Global Select Market was $7.93.

Holders

There were 96 holders of record of our common stock as of February 26, 2009.

Dividend Policy

We have not declared or paid any cash dividends on our capital stock since our inception and do not anticipate paying any cash dividends in the foreseeable future.

In the event we decide to declare dividends on our common stock in the future, such declaration will be subject to the discretion of our Board of Directors. Our Board may take into account such matters as general business conditions, our financial results, capital requirements, contractual, legal, and regulatory restrictions on the payment of dividends by us to our stockholders or by our subsidiaries to us and any such other factors as our Board may deem relevant.

Recent Sales of Unregistered Securities

None.

Securities Authorized for Issuance Under Equity Compensation Plans

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

Table of Contents

Issuer Purchases of Equity Securities

During the quarter ended December 31, 2008, 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, 2008 October 31, 2008 November 1, 2008 November 30, 2008 December 1 , 2008 December 31, 2008	11,369	$ 7.21		$
	11,369	$ 7.21		

During the three months ended December 31, 2008, a total of 11,369 shares were forfeited by employees to us to satisfy employee withholding tax obligations upon the vesting of restricted shares.

Table of Contents

STOCK PERFORMANCE GRAPH

The following graph shows a comparison from November 5, 2004 (the date our common stock commenced trading on the NASDAQ Global Select Market) through December 31, 2008 of (i) the cumulative total return for our common stock, (ii) the NASDAQ Composite Index, (iii) the NASDAQ Global Select Market Composite Index and (iv) the Dow Jones US Financial Services Index.

The NASDAQ Global Select Market Composite Index, introduced in July 2006, is a market capitalization weighted index that measures all NASDAQ domestic and international based common type stocks listed in the Global Select tier of the NASDAQ Stock Market. The index carries the index history of the NASDAQ National Market Composite Index.

The figures in this graph assume an initial investment of $100 in our common stock at the closing price of $17.49 on November 5, 2004, the date our common stock commenced trading on the NASDAQ National Market (now the NASDAQ Global Select Market), and an initial investment of $100 on October 31, 2004 in each of the three indexes.

The returns illustrated below are based on historical results during the period indicated and should not be considered indicative of future stockholder returns. Data for the NASDAQ Composite Index, the NASDAQ Global Select Market Composite Index and the Dow Jones US Financial Services Index assume reinvestment of dividends. We have never paid dividends on our common stock and have no present plans to do so. All performance data have been provided by Research Data Group, Inc.

COMPARISON OF 50 MONTH CUMULATIVE TOTAL RETURN

* On November 2, 2004, the registration statement relating to our initial public offering at a price of $11.00 per share was declared effective. Our common stock began trading on the NASDAQ National Market (now the NASDAQ Global Select Market) on November 5, 2004 and, as required by SEC regulations, the above graph begins with the closing price of our common stock on that date of $17.49.

Table of Contents

Item 6. ***Selected Financial Data.***

The selected statement of operations data for each of the years ended December 31, 2008, 2007 and 2006 and the selected balance sheet data as of December 31, 2008 and 2007 have been derived from our audited financial statements included elsewhere in this Form 10-K. The selected statement of operations data for the years ended December 31, 2005 and 2004, and the balance sheet data as of December 31, 2006, 2005 and 2004 have been derived from our audited financial statements not included in this Form 10-K.

	Year Ended December 31,				
	2008	2007	2006	2005	2004
	(In thousands, except share and per share amounts)				
Statement of Operations Data:					
Revenues					
Commissions					
U.S. high-grade(1)	$ 46,547	$ 52,541	$ 47,752	$ 45,615	$ 45,465
Eurobond	18,146	18,828	15,368	14,078	15,142
Other(2)	8,835	8,845	8,310	7,225	7,565
Total commissions	73,528	80,214	71,430	66,918	68,172
Technology products and services(3)	8,555	742			
Information and user access fees	6,025	5,877	5,477	4,435	2,713
Interest income	3,478	5,242	4,595	3,160	882
Other(4)	1,499	1,568	1,814	4,047	4,030
Total revenues	93,085	93,643	83,316	78,560	75,797
Expenses					
Employee compensation and benefits(5)	43,810	43,051	42,078	35,445	33,146
Depreciation and amortization	7,879	7,170	6,728	5,649	3,468
Technology and communications	8,311	7,463	7,704	7,401	6,402
Professional and consulting fees	8,171	7,639	8,072	9,355	4,908
Warrant-related expense(6)					2,524
Occupancy	2,891	3,275	3,033	2,365	1,842
Marketing and advertising	2,781	1,905	1,769	2,581	2,530
Moneyline revenue share					1,240
General and administrative	6,408	5,889	5,328	4,203	2,421
Total expenses	80,251	76,392	74,712	66,999	58,481
Income before income taxes	12,834	17,251	8,604	11,561	17,316
	4,935	6,931	3,183	3,419	(40,271)

Provision (benefit) for income taxes(7)					
Net income	$ 7,899	$ 10,320	$ 5,421	$ 8,142	$ 57,587
Net income per common share(8):					
Basic	$ 0.23	$ 0.32	$ 0.18	$ 0.29	$ 6.76
Diluted	$ 0.22	$ 0.30	$ 0.15	$ 0.23	$ 1.88
Weighted average number of shares of common stock outstanding:					
Basic	32,830,923	32,293,036	30,563,437	28,156,505	7,097,682
Diluted	35,737,379	34,453,195	35,077,348	35,512,346	30,638,644

Table of Contents

	As of December 31,				
	2008	2007	2006	2005	2004
	(In thousands)				
Balance Sheet Data:					
Cash and cash equivalents, short-term investments and securities available-for-sale	$ 142,550	$ 124,290	$ 131,015	$ 118,145	$ 103,449
Working capital(9)	137,390	120,656	135,268	120,016	103,996
Total assets	246,428	198,366	204,278	190,462	175,646

(1) Commissions include commissions from monthly distribution fees and transactions between institutional investor clients and broker-dealer clients as well as transactions between broker-dealer clients.

(2) Other commissions consist primarily of commissions from the trading of emerging markets, crossover and high-yield, new issue, agency and treasury bonds as well as credit default swap indices.

(3) Technology product and services includes software licenses, maintenance and support services and professional consulting services. Revenues are principally derived from the acquisitions of Greenline in March 2008 and TWS in November 2007.

(4) Other revenues consist primarily of telecommunications line charges to broker-dealer clients and other miscellaneous revenues.

(5) We adopted Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), Share-Based Payment (SFAS 123R) using the modified prospective transition method effective January 1, 2006. In accordance with the modified prospective transition method, our Consolidated Financial Statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS 123R. Incremental stock-based compensation expense related to employee stock options recognized under SFAS 123R for the years ended December 31, 2008, 2007 and 2006 was $3.8 million, $3.0 million and $3.2 million, respectively.

(6) Warrant-related expense is the expense associated with the allocation of warrants to purchase shares of our common stock issuable pursuant to a warrant issued to six of our broker-dealer clients at the time they made an equity investment in us. While the warrant was expensed each quarter, this was a non-cash expense that varied with the underlying fair market value of our common stock. The final share allocations under the warrant program occurred on March 1, 2004. Accordingly, we no longer record any expense related to this warrant.

(7) During the year ended December 31, 2004, we reduced the valuation allowance relating to our deferred tax assets by $46.1 million, from $64.3 million to $18.1 million. Due to the fact that we had achieved multiple quarters of profitability, it became more likely than not that we would be able to utilize our net operating loss carryforwards. We also determined that it was more likely than not that all of the temporary differences relating to the deductibility of certain expenses for book and tax purposes, including the warrant-related expense, would be utilized prior to expiration. We also recognized $2.1 million in tax credits and an additional tax benefit for operating losses of $1.5 million. Without giving effect to the reduction of the valuation allowance, tax credits and the additional benefit for operating losses, our net income for the year ended December 31, 2004 would have been $7.9 million.

(8)

Includes the effect of dividends accrued on our redeemable convertible preferred stock. Upon completion of our initial public offering, all outstanding shares of redeemable convertible preferred stock and convertible preferred stock were converted into 14,484,493 shares of common stock and 4,266,310 shares of non-voting common stock.

(9) Working capital is defined as current assets minus current liabilities. Current assets consist of cash and cash equivalents, short-term investments, securities available-for-sale, securities and cash provided as collateral, accounts receivable, and prepaid expenses. Current liabilities consist of accrued employee compensation, deferred revenue, and accounts payable, accrued expenses and other liabilities.

Table of Contents

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 Summary

MarketAxess operates one of the leading platforms for the electronic trading of corporate bonds and certain other types of fixed-income securities. Through our platform, 649 active institutional investor client firms (firms that executed at least one trade in U.S. or European fixed-income securities through our electronic trading platform between January 2008 and December 2008) can access the aggregate liquidity provided by the collective interest of our 48 broker-dealer clients in buying or selling bonds through our platform. Our active institutional investor clients include investment advisers, mutual funds, insurance companies, public and private pension funds, bank portfolios and hedge funds. Our DealerAxess® trading service allows dealers to trade fixed-income securities and credit default swaps with each other on our platform. Through our Corporate BondTicker™ service, we provide fixed-income market data, analytics and compliance tools that help our clients make trading decisions. In addition, we provide FIX (Financial Information eXchange) message management tools, connectivity solutions and ancillary technology services that facilitate the electronic communication of order information between trading counterparties. Our revenues are primarily generated from the trading of U.S. and European high-grade corporate bonds.

Our multi-dealer trading platform allows our institutional investor clients to simultaneously request competing, executable bids or offers from our broker-dealer clients and execute trades with the broker-dealer of their choice from among those that choose to respond. We offer our broker-dealer clients a solution that enables them to efficiently reach our institutional investor clients for the distribution and trading of bonds. In addition to U.S. high-grade corporate bonds, European high-grade corporate bonds and emerging markets bonds, including both investment-grade and non-investment grade debt, we also offer our clients the ability to trade crossover and high-yield bonds, agency bonds, new issues and credit default swap indices.

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

We seek to grow and diversify our revenues by capitalizing on our status as the operator of a leading platform for the electronic trading of corporate bonds and certain other types of fixed-income securities. The key elements of our strategy are:

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

to leverage our technology, as well as our strong broker-dealer and institutional investor relationships, to deploy our electronic trading platform into additional product segments within the fixed-income securities markets, deliver fixed-income securities-related technical services and products and deploy our electronic trading platform into new client segments;

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

Table of Contents

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 in the number of broker-dealers.

Competitive Landscape

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

In general, we compete on the basis of a number of key factors, including, among others, the liquidity provided on our platform, the magnitude and frequency of price improvement enabled by our platform and the quality and speed of execution. We believe that we compete favorably with respect to these factors. We continue to proactively build technology solutions that serve the needs of the credit markets.

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

Regulatory Environment

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

Our U.S. subsidiary, MarketAxess Corporation, is a registered broker-dealer with the SEC and is a member of FINRA. Our U.K. subsidiary, MarketAxess Europe Limited, is registered as a multilateral trading facility dealer with the FSA in the U.K. MarketAxess Canada Limited, a Canadian subsidiary that we incorporated in May 2003, is

registered as an Alternative Trading System dealer under the Securities Act of Ontario and is a member of the Investment Industry Regulatory Organization of Canada. Relevant regulations prohibit repayment of borrowings from these subsidiaries or their affiliates, paying cash dividends, making loans to us or our affiliates or otherwise entering into transactions that result in a significant reduction in regulatory net capital or financial resources, without prior notification to or approval from such regulated entity s principal regulator.

As a public company, we are subject to the reporting requirements of the Securities Exchange Act of 1934, the Sarbanes-Oxley Act of 2002 and NASDAQ rules promulgated in response to the Sarbanes-Oxley Act. The

Table of Contents

requirements of these rules and regulations impose legal and financial compliance costs, made some activities more difficult, time-consuming or costly and may also place a strain on our systems and resources. In order to maintain and improve the effectiveness of our disclosure controls and procedures and internal control over financial reporting, significant resources and management oversight are required.

Rapid Technological Changes

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

Trends in Our Business

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

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

We believe that overall corporate bond market trading volume is affected by various factors including the absolute levels of interest rates, the direction of interest rate movements, the level of new issues of corporate bonds and the volatility of corporate bond spreads versus U.S. Treasury securities. Because a significant percentage of our revenue is tied directly to the volume of securities traded on our platform, it is likely that a general decline in trading volumes, regardless of the cause of such decline, would reduce our revenues and have a significant negative impact on profitability.

The past 18 months has been a period of significant turmoil in the U.S. and European credit markets, especially in short-term funding and floating rate note instruments. A widespread retrenchment in the credit markets resulted in increased credit spreads and significantly higher credit spread volatility across a wide range of asset classes. Credit yield spreads in U.S. corporate bonds, as measured by the Credit Suisse Liquid U.S. Corporate Index (LUCI), increased from 1.0% over U.S Treasuries in June 2007 to 5.31% in December 2008. Credit spread volatility in U.S. corporate bonds, as measured by the LUCI Index, increased from 0.7% in June 2007 to 11.7% in December 2008. The average daily trading volume of U.S. high-grade corporate bonds for the year ended December 31, 2008, as measured by TRACE, decreased by 9.0% compared to 2007. We believe the resultant lack of liquidity in the credit markets led institutional investors to reduce overall bond trading activity and conduct a higher percentage of their

trades directly with their broker-dealer counterparties via the telephone, resulting in lower volumes on our platform. We also believe that a stabilization of credit market conditions, at higher overall levels of credit spreads, is likely to favorably impact the volume of trades conducted over our platform. The lower volumes on our platform were partially offset by higher average variable transactions fees per million that were $129 in 2008 compared to $103 in 2007 and $114 in 2006. The increase in average variable transaction fees per million in 2008 was principally the result of the longer maturity of U.S. high-grade corporate bond trades executed on our platform, for which we charge higher commissions, and a larger percentage of Other volume in products that carry higher fees per million, principally high yield.

Table of Contents

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 generally incorporate various monthly distribution fees and variable transaction fees billed to our broker-dealer clients on a monthly basis. We expect the U.S. high-grade distribution fees to decrease as a result of the recent merger and bankruptcy activity involving several of our broker-dealer clients. The fee plan incorporates volume incentives to our broker-dealer clients that are designed to increase the volume of transactions effected on our platform. Under the fee plan, we electronically add the transaction fee to the spread quoted by the broker-dealer client. For trades on our DealerAxess® dealer-to-dealer electronic trading platform, we typically charge a fee to the broker-dealer client involved in the transaction that is based on the size of the transaction and the maturity of the bond traded.

Eurobond Commissions. On June 1, 2007, we introduced a new fee plan for Eurobond trades for the majority of our European dealers. Similar to the U.S. high-grade plan, our European fee plan incorporates monthly distribution fees and a transaction fee that is lower than the transaction fee under the previous European high-grade plan and incorporates incentives to our broker-dealer clients that are designed to increase the volume of transactions effected on our platform. The transaction fee under the new plan is dependent on the type of bond traded and the maturity of the issue. The combination of the distribution fees and transaction fees in the new plan results in higher total revenue to us at current or lower volume levels. If volume grows, total revenues could be less under the new plan than the previous plan due to the lower transaction fees. Under the fee plan in effect prior to June 1, 2007, broker-dealer transaction fees varied based on the type of bond traded and the maturity of the issue. This fee schedule applied a tiered fee structure, which reduced the fee per trade upon the attainment of certain specified amounts of monthly commissions generated by a particular broker-dealer and did not carry a monthly distribution fee.

Other Commissions. Commissions for other bond and credit default swap trades generally vary based on the type and the maturity of the instrument traded. We generally operate using standard fee schedules that may include both transaction fees and monthly distribution fees that are charged to the participating dealers.

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

Other Revenue

In addition to the commissions discussed above, we earn revenue from technology products and services, information services fees paid by institutional investor and broker-dealer clients, income on investments and other income.

Technology Products and Services. Technology products and services includes software licenses, maintenance and support services and professional consulting services, In March 2008, we acquired Greenline Financial Technologies, Inc. (Greenline), an Illinois-based provider of integration, testing and management solutions for FIX-related products and services. In November 2007, we acquired certain assets of Trade West Systems, LLC (TWS), a Utah-based financial software and technology services provider focused on providing gateway adapters for connecting order management systems and trading systems to fixed-income trading venues.

Information and User Access Fees. We charge information services fees for Corporate BondTickerTM 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

Table of Contents

trades on our U.S. high-grade corporate bond platform, we reduce these information and user access fees for such clients once minimum quarterly trading volumes are attained.

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

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

Expenses

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

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

Depreciation and Amortization. We depreciate our computer hardware and related software, office hardware and furniture and fixtures and amortize our capitalized software development costs on a straight-line basis over a three-year or five-year period. 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 pursuant to the provisions of SFAS No. 144, Accounting for Long Lived Assets and for Long Lived Assets to be Disposed Of.

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

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

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

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

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

Expenses may grow in the future, primarily due to investment in new products, notably in employee compensation and benefits, professional and consulting fees, and general and administrative expense, but we believe that operating leverage can be achieved by increasing volumes in existing products and adding new products without substantial

additions to our infrastructure.

Critical Accounting 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

Table of Contents

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

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.

Revenue Recognition

The majority of our 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. 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.

Technology products and services. We recognize revenues from technology software licenses, maintenance and support services (referred to as post-contract technical support or PCS) and professional consulting services in accordance with the provisions of the American Institute of Certified Public Accountants Statement of Position (SOP) 97-2, Software Revenue Recognition (SOP 97-2) as amended by SOP 98-4 and SOP 98-9 and clarified by Staff Accounting Bulletin (SAB) 101, SAB No. 104 and Emerging Issues Task Force (EITF) 00-21 and SOP 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts (SOP 81-1). 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 services together as part of multiple-element arrangements. We also enter into contracts for technology integration consulting services unrelated to any software product. When we enter into a multiple-element arrangement, we use the residual method to allocate the total fee among the elements of the arrangement. Under the residual method, license revenue is recognized upon delivery when vendor-specific objective evidence of fair value exists for all of the undelivered elements in the

arrangement, but does not exist for one or more of the delivered elements in the arrangement. Each license arrangement requires that we analyze the individual elements in the transaction and estimate the fair value of each undelivered element, which typically includes PCS and professional services. License revenue consists of license fees charged for the use of our products under perpetual and, to a lesser extent, term license arrangements. License revenue from a perpetual arrangement is generally recognized upon delivery while license revenue from a term arrangement is recognized ratably over the duration of the arrangement

Table of Contents

on a straight-line basis. If the professional services are essential to the functionality of the software product, the license revenue is recognized upon customer acceptance or satisfaction of the service obligation.

Professional services are generally separately priced, are available from a number of suppliers and are typically not essential to the functionality of our software products. Revenues from these services are recognized separately from the license fee if the arrangements qualify as service transactions as defined by SOP 97-2. Generally, revenue from time-and-materials consulting contracts is recognized as services are performed.

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

Revenues from contracts for technology integration consulting services are recognized on the percentage-of-completion method in accordance with SOP 81-1. Percentage-of-completion accounting involves calculating the percentage of services provided during the reporting period compared to the total estimated services to be provided over the duration of the contract. If estimates indicate that a contract loss will occur, a loss provision is recorded in the period in which the loss first becomes probable and reasonably estimable. Contract losses are determined to be the amount by which the estimated direct and indirect costs of the contract exceed the estimated total revenues that will be generated by the contract. There were no contract loss provisions recorded as of December 31, 2008 and 2007. Revenues recognized in excess of billings are recorded as unbilled services. Billings in excess of revenues recognized are recorded as deferred revenues until revenue recognition criteria are met.

Stock-Based Compensation

We measure and recognize compensation expense for all share-based payment awards in accordance with SFAS No. 123 (revised 2004), Share-Based Payment (SFAS 123R). This statement requires that compensation expense for all share-based awards be recognized 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. We adopted SFAS 123R using the modified prospective transition method effective January 1, 2006.

Income Taxes

Income taxes are accounted for using the asset and liability method in accordance with SFAS No. 109, Accounting for Income Taxes (SFAS 109). 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.

In June 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109 (FIN 48), which applies to all tax positions accounted for under SFAS 109. A tax position includes current or future reductions in taxable income reported or expected to be reported on a tax return. FIN 48 supplements SFAS 109 by defining the confidence level that a tax position must meet in order to be recognized in the financial statements. The interpretation requires that the tax effects of a position be recognized only if it is more-likely-than-not (i.e., greater than 50% likelihood) to be sustained based solely on its technical merits as of the reporting date. In making this assessment, a company must assume that the taxing authorities will examine the position. As a result of the implementation of FIN 48 effective January 1, 2007, we recognized an increase in deferred

tax assets of $3.0 million related to previously unrecognized tax benefits, which was accounted for as an increase to additional paid-in capital of $0.3 million and an increase in accrued expenses of $2.7 million. Unrecognized tax benefits as of December 31, 2008 were $2.7 million. If recognized, this entire amount would impact the effective tax rate.

Table of Contents

Business Combinations, Goodwill and Intangibles Assets

We account for business acquisitions under the purchase method of accounting in accordance with SFAS No. 141, Business Combinations. 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.

In accordance with SFAS No. 142, Goodwill and Other Intangible Assets, we no longer amortize goodwill and other intangibles with indefinite 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 pursuant to the provisions of SFAS No. 144, Accounting for Long Lived Assets and for Long Lived Assets to be Disposed Of.

Segment Results

As an electronic, multi-dealer platform for trading fixed-income securities, our operations constitute a single business segment pursuant to SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information. Because of the highly integrated nature of the financial markets in which we compete and the integration of our worldwide business activities, we believe that results by geographic region, products or types of clients are not necessarily meaningful in understanding our business.

Table of Contents

Results of Operations

Financial Results

The following table presents our consolidated operating results expressed in U.S. dollars and as a percentage of total revenues for each of the years presented:

	Year Ended December 31,					
	2008		2007		2006	
	$	% of Revenues	$	% of Revenues	$	% of Revenues
	($ in thousands)					
Revenues						
Commissions						
U.S. high-grade	$ 46,547	50.0%	$ 52,541	56.1%	$ 47,752	57.3%
Eurobond	18,146	19.5	18,828	20.1	15,368	18.4
Other	8,835	9.5	8,845	9.4	8,310	10.0
Total commissions	73,528	79.0	80,214	85.7	71,430	85.7
Technology products and services	8,555	9.2	742	0.8		0.0
Information and user access fees	6,025	6.5	5,877	6.3	5,477	6.6
Interest income	3,478	3.7	5,242	5.6	4,595	5.5
Other	1,499	1.6	1,568	1.7	1,814	2.2
Total revenues	93,085	100.0	93,643	100.0	83,316	100.0
Expenses						
Employee compensation and benefits	43,810	47.1	43,051	46.0	42,078	50.5
Depreciation and amortization	7,879	8.5	7,170	7.7	6,728	8.1
Technology and communications	8,311	8.9	7,463	8.0	7,704	9.2
Professional and consulting fees	8,171	8.8	7,639	8.2	8,072	9.7
Occupancy	2,891	3.1	3,275	3.5	3,033	3.6
Marketing and advertising	2,781	3.0	1,905	2.0	1,769	2.1
General and administrative	6,408	6.9	5,889	6.3	5,328	6.4
Total expenses	80,251	86.2	76,392	81.6	74,712	89.7
Income before taxes	12,834	13.8	17,251	18.4	8,604	10.3
Provision for income taxes	4,935	5.3	6,931	7.4	3,183	3.8
Net income	$ 7,899	8.5%	$ 10,320	11.0%	$ 5,421	6.5%

51

Table of Contents

Statistical Information

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

	Year Ended December 31,		
	2008	**2007**	**2006**
Trading Volume Data (in billions)			
U.S. high-grade	$ 134.6	$ 209.2	$ 195.4
Eurobond	35.8	77.4	87.6
Other	56.0	73.3	56.6
Total	$ 226.4	$ 359.9	$ 339.6
Number of U.S. Trading Days	251	250	249
Number of U.K. Trading Days	254	253	251

For volume reporting purposes, transactions in foreign currencies are converted to U.S. dollars at average monthly rates. Prior to September 1, 2008, no fees were charged on U.S. high-grade single-dealer inquiries. Such single-dealer inquiry trading volume amounted to $6.3 billion, $15.1 billion and $19.0 billion for the years ended December 31, 2008, 2007 and 2006, respectively. Effective September 1, 2008, single-dealer inquiry trades are charged commissions in accordance with the U.S. high-grade corporate bond fee plan. Credit default swap trading volume data are included in Other. Trading volume data related to DealerAxess® bond trading between broker-dealer clients are included in either U.S. high-grade or Other trading volumes, as appropriate.

Our active institutional investor clients (firms that executed at least one trade in U.S. or European fixed-income securities through our electronic platform during the applicable year) and our broker-dealer clients as of December 31, 2008, 2007 and 2006 were as follows:

	December 31,		
	2008	**2007**	**2006**
Institutional Investor Clients:			
U.S. products	466	465	460
European products	183	209	229
Total	649	674	689
Broker-Dealer Clients	48	30	25

Year Ended December 31, 2008 Compared to Year Ended December 31, 2007

Overview

Total revenues decreased by 0.6% to $93.1 million for the year ended December 31, 2008 from $93.6 million for the year ended December 31, 2007. This decrease in total revenues was primarily due to a decline in U.S. high-grade

revenues of $6.0 million, European high-grade revenues of $0.7 million and investment income of $1.8 million, offset by an increase in technology products and services revenues of $7.8 million. Technology products and services revenues reflect the impact of the Greenline and TWS acquisitions.

Total expenses increased by $3.9 million or 5.1% to $80.3 million for the year ended December 31, 2008 from $76.4 million for the year ended December 31, 2007. The Greenline acquisition increased expenses by $7.2 million, including $3.5 million of employee compensation and benefits. The $3.9 million increase in total expenses was primarily due to higher employee compensation and benefits of $0.8 million, depreciation and amortization of $0.7 million, technology and communications of $0.8 million and marketing and advertising of $0.9 million.

Income before taxes decreased by $4.4 million or 25.6% to $12.8 million for the year ended December 31, 2008, from $17.3 million for the year ended December 31, 2007. Net income decreased by $2.4 million or 23.5% to $7.9 million for the year ended December 31, 2008, from $10.3 million for the year ended December 31, 2007.

Table of Contents

Recent Developments

On February 4, 2009, we issued a press release announcing our results of operations for the three months and year ended December 31, 2008. The press release included consolidated condensed balance sheet data as of December 31, 2008 and 2007. Subsequent to the issuance of the press release, we concluded that it was appropriate to adjust the deferred tax balance and goodwill associated resulting from the Greenline acquisition, which affected certain December 31, 2008 balance sheet accounts. As a result, the deferred tax asset balance decreased by $0.7 million and the goodwill balance increased by $0.7 million from the amounts reported in the press release. The adjustment had no effect on the Consolidated Statements of Operations or earnings per share reported in the press release, nor did it affect our cash position.

Revenues

Our revenues for the years ended December 31, 2008 and 2007, and the resulting dollar and percentage changes, were as follows:

	Year Ended December 31,					
	2008		2007			
	$	% of Revenues	$	% of Revenues	$ Change	% Change
	($ in thousands)					
Revenues						
Commissions						
U.S. high-grade	$ 46,547	50.0%	$ 52,541	56.1%	$ (5,994)	(11.4)%
Eurobond	18,146	19.5	18,828	20.1	(682)	(3.6)
Other	8,835	9.5	8,845	9.4	(10)	(0.1)
Total commissions	73,528	79.0	80,214	85.7	(6,686)	(8.3)
Technology products and services	8,555	9.2	742	0.8	7,813	1,053.0
Information and user access fees	6,025	6.5	5,877	6.3	148	2.5
Investment income	3,478	3.7	5,242	5.6	(1,764)	(33.7)
Other	1,499	1.6	1,568	1.7	(69)	(4.4)
Total revenues	$ 93,085	100.0%	$ 93,643	100.0%	$ (558)	(0.6)%

Commissions. Total commissions decreased by $6.7 million or 8.3% to $73.5 million for the year ended December 31, 2008 from $80.2 million for 2007. The following table shows the extent to which the decrease in commissions for the year ended December 31, 2008 was attributable to changes in transaction volumes, transaction fees per million, monthly distribution fees and DealerAxess® minimum fees:

	Change from Year Ended December 31, 2007

	U.S. High-Grade	Eurobond	Other	Total
	(In thousands)			
Volume (decrease)	$ (6,277)	$ (5,740)	$ (2,088)	$ (14,105)
Transaction fee per million increase (decrease)	4,935	(937)	2,078	6,076
Monthly distribution fees (decrease) increase	(1,173)	5,995		4,822
DealerAxess® minimum fees (decrease)	(3,479)			(3,479)
Total commissions (decrease)	$ (5,994)	$ (682)	$ (10)	$ (6,686)

Table of Contents

Our average fee per million for the years ended December 31, 2008 and 2007 was as follows:

	Year Ended December 31,	
	2008	2007
Average Fee Per Million		
U.S. high-grade		
Transaction	$ 121	$ 84
Total	346	251
Eurobond		
Transaction	112	138
Total	507	243
Other	158	121
All Products		
Transaction	129	103
Total	325	223

U.S. high-grade volume decreased by 35.6% for the year ended December 31, 2008, compared to the year ended December 31, 2007. The decrease in U.S. high-grade volume was due primarily to a decline in the Company s estimated market share of total U.S. high-grade corporate bond volume as reported by FINRA TRACE from 9.4% for the year ended December 31, 2007 to 6.6% for the year ended December 31, 2008, coupled with a decline in overall market volume as measured by FINRA TRACE. Estimated FINRA TRACE U.S. high-grade volume decreased by 9.0% from $2,227 billion for the year ended December 31, 2007 to $2,028 billion for the year ended December 31, 2008. We believe the resultant lack of liquidity in the credit markets led institutional investors to reduce overall bond trading activity and conduct a higher percentage of their trades directly with their broker-dealer counterparties via the telephone, resulting in lower volumes on our platform. The U.S. high-grade distribution fees were $30.3 million for the year ended December, 2008, compared to $31.5 million for the year ended December 31, 2007. The U.S. high-grade distribution fees may decrease as a result of recent merger and bankruptcy activity involving several of our broker-dealer clients. The DealerAxess® monthly minimum fees were zero and $3.5 million for the years ended December 31, 2008 and 2007, respectively. The majority of the DealerAxess® minimum fee commitments expired as of June 30, 2007. The total U.S. high-grade average fee per million is calculated for each period presented using both the transaction fees and the monthly distribution fees, including the DealerAxess® monthly minimum fees, paid by our broker-dealer clients. The variable U.S. high-grade average transaction fee per million increased from $84 per million for the year ended December 31, 2007 to $121 per million for the year ended December 31, 2008 due to the longer maturity of trades executed on the platform, for which we charge higher commissions.

Eurobond volume decreased by 53.8%, net of the unfavorable effect of foreign currency changes, for the year ended December 31, 2008, compared to the year ended December 31, 2007. During 2008, we believe that the European credit markets experienced market conditions similar to the U.S. On June 1, 2007, we introduced a new fee plan for European corporate bond trades. Similar to the U.S. high-grade plan, the new European high-grade corporate bond fee plan incorporates a monthly distribution fee and a transaction fee that is dependent on the type of bond traded and the maturity of the issue. The European high-grade distribution fee was $14.2 million for year ended December 31, 2008, compared to $8.1 million for the year ended December 31, 2007. The total Eurobond average fee per million is calculated for each period presented using both the transaction fees and the monthly distribution fees paid by our broker-dealer clients. The European high-grade average transaction fee per million decreased from $138 per million for the year ended December 31, 2007 to $112 per million for the year ended December 31, 2008, principally from the introduction of the new European high-grade fee plan.

Other volume decreased by 23.5% for the year ended December 31, 2008, compared to the year ended December 31, 2007. The decrease was primarily due to lower emerging market, agencies and credit default swap volume offset partially by increased high yield volume. Other average fee per million increased from $121 per million for the year ended December 31, 2007 to $158 per million for the year ended December 31, 2008 primarily due to a higher percentage of volume in products that carry higher fees per million, principally high yield.

Table of Contents

Technology Products and Services. Technology products and services revenues increased by $7.8 million to $8.6 million for the year ended December 31, 2008 from $0.7 million for the year ended December 31, 2007. The increase was primarily a result of the Greenline acquisition.

Information and User Access Fees. Information and user access fees increased by $0.1 million or 2.5% to $6.0 million for the year ended December 31, 2008 from $5.9 million for the year ended December 31, 2007.

Investment Income. Investment income decreased by $1.8 million or 33.7% to $3.5 million for the year ended December 31, 2008 from $5.2 million for the year ended December 31, 2007. This decrease was primarily due to lower interest rates.

Other. Other revenues decreased by $0.1 million or 4.4% to $1.5 million for the year ended December 31, 2008 from $1.6 million for the year ended December 31, 2007.

Expenses

Our expenses and expenses as a percentage of revenues for the years ended December 31, 2008 and 2007, and the resulting dollar and percentage changes, were as follows:

	Year Ended December 31,					
	2008		2007			
	$	% of Revenues	$	% of Revenues	$ Change	% Change
	($ in thousands)					
Expenses						
Employee compensation and benefits	$ 43,810	47.1%	$ 43,051	46.0%	$ 759	1.8%
Depreciation and amortization	7,879	8.5	7,170	7.7	709	9.9
Technology and communications	8,311	8.9	7,463	8.0	848	11.4
Professional and consulting fees	8,171	8.8	7,639	8.2	532	7.0
Occupancy	2,891	3.1	3,275	3.5	(384)	(11.7)
Marketing and advertising	2,781	3.0	1,905	2.0	876	46.0
General and administrative	6,408	6.9	5,889	6.3	519	8.8
Total expenses	$ 80,251	86.2%	$ 76,392	81.6%	$ 3,859	5.1%

Employee Compensation and Benefits. Employee compensation and benefits increased by $0.8 million or 1.8% to $43.8 million for the year ended December 31, 2008 from $43.1 million for the year ended December 31, 2007. This increase was primarily attributable to higher wages of $2.4 million, severance costs of $1.0 million and stock-based compensation expense of $1.4 million, offset by reduced incentive compensation of $3.6 million. The higher wages were primarily a result of the Greenline acquisition. The total number of employees increased to 185 as of December 31, 2008 from 182 as of December 31, 2007. As a percentage of total revenues, employee compensation and benefits expense increased to 47.1% for the year ended December 31, 2008 from 46.0% for the year ended December 31, 2007.

Depreciation and Amortization. Depreciation and amortization expense increased by $0.7 million or 9.9% to $7.9 million for the year ended December 31, 2008 from $7.2 million for the year ended December 31, 2007. An increase in amortization of intangible assets of $1.3 million and TWS impairment charge of $0.7 million were offset by a decline in depreciation and amortization of hardware and software development costs of $1.3 million. The intangible asset amortization increase was due to the $8.3 million of definite-life intangibles created in 2008 in connection with the Greenline acquisition. The TWS impairment charge was recorded to reflect negative current period operating results and reduced revenue expectations for connectivity solutions principally delivered to broker-dealers. For the year ended December 31, 2008, we capitalized $2.4 million of software development costs and $1.7 million of computer and related equipment purchases.

Technology and Communications. Technology and communications expense increased by $0.8 million or 11.4% to $8.3 million for the year ended December 31, 2008 from $7.5 million for the year ended December 31, 2007. This increase was attributable to higher expenses associated with the purchase of production and market data.

Table of Contents

Professional and Consulting Fees. Professional and consulting fees increased by $0.5 million or 7.0% to $8.2 million for the year ended December 31, 2008 from $7.6 million for the year ended December 31, 2007. The increase was principally due to higher information technology consultant costs of $0.7 million and audit and tax fees of $0.2 million, offset by lower recruiting fees of $0.5 million.

Occupancy. Occupancy costs decreased by $0.4 million or 11.7% to $2.9 million for the year ended December 31, 2008 from $3.3 million for the year ended December 31, 2007. The decline was principally due to exiting certain leased office space in 2008.

Marketing and Advertising. Marketing and advertising expense increased by $0.9 million or 46.0% to $2.8 million for the year ended December 31, 2008 from $1.9 million for the year ended December 31, 2007, primarily due to higher travel and entertainment expenses.

General and Administrative. General and administrative expense increased by $0.5 million or 8.8% to $6.4 million for the year ended December 31, 2008 from $5.9 million for the year ended December 31, 2007, primarily due to increased charges for doubtful accounts of $0.8 million.

Provision for Income Tax

We recorded an income tax provision of $4.9 million and $6.9 million for the years ended December 31, 2008 and 2007, respectively. The decrease in the tax provision was primarily attributable to the $4.4 million decrease 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, 2008 was 38.5% compared to 40.2% for the year ended December 31, 2007. The 2008 effective tax rate reflects a higher portion of earnings generated in lower tax rate jurisdictions. The 2007 provision includes an adjustment to the deferred tax asset balance of $0.5 million to reflect the tax rate anticipated to be in effect when the temporary differences are expected to reverse, as well as changes in enacted state and foreign tax rates. 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, 2008, we had net operating loss carryforwards of $105.1 million and tax credit carryforwards of $3.3 million for income tax purposes. The deferred tax asset of $35.7 million at December 31, 2008, includes a valuation allowance of $0.6 million arising from certain tax credit and foreign 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.

Year Ended December 31, 2007 Compared to Year Ended December 31, 2006

Overview

Total revenues increased by $10.3 million or 12.4% to $93.6 million for the year ended December 31, 2007 from $83.3 million for the year ended December 31, 2006. This increase in total revenues was primarily due to increases in total commissions of $8.8 million, technology products and services of $0.7 million and investment income of $0.6 million.

Total expenses increased by $1.7 million or 2.2% to $76.4 million for the year ended December 31, 2007 from $74.7 million for the year ended December 31, 2006. This increase was primarily due to higher employee compensation and benefits of $1.0 million.

Income before taxes increased by $8.6 million or 100.5% to $17.3 million for the year ended December 31, 2007, from $8.6 million for the year ended December 31, 2006. Net income increased by $4.9 million or 90.4% to $10.3 million for the year ended December 31, 2007, from $5.4 million for the year ended December 31, 2006.

Table of Contents

Revenues

Our revenues for the years ended December 31, 2007 and 2006, and the resulting dollar and percentage changes, were as follows:

	Year Ended December 31,					
	2007		2006			
	$	% of Revenues	$	% of Revenues	$ Change	% Change
	($ in thousands)					
Revenues						
Commissions						
U.S. high-grade	$ 52,541	56.1%	$ 47,752	57.3%	$ 4,789	10.0%
Eurobond	18,828	20.1	15,368	18.4	3,460	22.5
Other	8,845	9.4	8,310	10.0	535	6.4
Total commissions	80,214	85.7	71,430	85.7	8,784	12.3
Technology products and services	742	0.8		0.0	742	N/A
Information and user access fees	5,877	6.3	5,477	6.6	400	7.3
Investment income	5,242	5.6	4,595	5.5	647	14.1
Other	1,568	1.7	1,814	2.2	(246)	(13.6)
Total revenues	$ 93,643	100.0%	$ 83,316	100.0%	$ 10,327	12.4%

Commissions. Total commissions increased by $8.8 million or 12.3% to $80.2 million for the year ended December 31, 2007 from $71.4 million for 2006. The following table shows the extent to which the increase in commissions for the year ended December 31, 2007 was attributable to changes in transaction volumes, transaction fees per million, monthly distribution fees and DealerAxess® minimum fees:

	Change from Year Ended December 31, 2006			
	U.S. High-Grade	Eurobond	Other	Total
	(In thousands)			
Volume increase (decrease)	$ 1,069	$ (1,789)	$ 2,452	$ 1,731
Transaction fee per million increase (decrease)	1,399	(2,899)	(1,917)	(3,416)
Monthly distribution fees increase	1,675	8,148		9,823
DealerAxess® minimum fees increase	646			646
Total commissions increase	$ 4,789	$ 3,460	$ 535	$ 8,784

Table of Contents

Our average fee per million for the years ended December 31, 2007 and 2006 was as follows:

	Year Ended December 31,	
	2007	2006
Average Fee Per Million		
U.S. high-grade		
Transaction	$ 84	$ 77
Total	251	244
Eurobond		
Transaction	138	175
Total	243	175
Other	121	147
All Products		
Transaction	103	114
Total	223	210

U.S. high-grade volume increased by 7.1% for the year ended December 31, 2007, compared to the year ended December 31, 2006. The increase in U.S. high-grade volume was due primarily to an improvement in the Company s estimated market share of total U.S. high-grade corporate bond volume as reported by FINRA TRACE from 8.5% for the year ended December 31, 2006 to 9.4% for the year ended December 31, 2007, offset by a decline in overall market volume as measured by FINRA TRACE. Estimated FINRA TRACE U.S. high-grade volume decreased by 3.0% from $2,295 billion for the year ended December 31, 2006 to $2,227 billion for the year ended December 31, 2007. We believe that the credit market turmoil experienced in the second half of 2007 negatively impacted overall FINRA TRACE volume. The fixed monthly U.S. high-grade distribution fees were $31.5 million for the year ended December, 2007, compared to $29.8 million for the year ended December 31, 2006. The DealerAxess® monthly minimum fees were $3.5 million and $2.8 million for the years ended December 31, 2007 and 2006, respectively. The majority of the DealerAxess® minimum fee commitments expired as of June 30, 2007. The variable U.S. high-grade average fee per million increased from $77 per million for the year ended December 31, 2006 to $84 per million for the year ended December 31, 2007 due to the longer maturity of trades executed on the platform, for which we charge higher commissions.

European high-grade volume decreased by 11.6%, net of the favorable effect of foreign currency changes, for the year ended December 31, 2007, compared to the year ended December 31, 2006. During the second half of 2007, we believe that the European credit markets experienced market conditions similar to the U.S. On June 1, 2007, we introduced a new fee plan for European high-grade corporate bond trades. Similar to the U.S. high-grade plan, the new European high-grade corporate bond fee plan incorporates a fixed monthly fee and a variable fee that is dependent on the type of bond traded and the maturity of the issue. The fixed monthly European high-grade distribution fee was $8.1 million for year ended December 31, 2007. The European high-grade average fee per million decreased from $175 per million for the year ended December 31, 2006 to $138 per million the year ended December 31, 2007 resulted principally from the introduction of the new European high-grade fee plan.

Other volume increased by 29.5% for the year ended December 31, 2007, compared to the year ended December 31, 2006. The increase was primarily due to higher credit default swap, high-yield and agencies volume. Other average fee per million declined from $147 per million for the year ended December 31, 2006 to $121 per million for the year ended December 31, 2007 primarily due to higher volume in products that carry lower fees per million, including credit default swap indexes and agencies.

Technology Products and Services. Revenues for technology products and services in 2007 primarily relate to $0.6 million in revenue recognized under a technology development contract with a broker-dealer client.

Information and User Access Fees. Information and user access fees increased by $0.4 million or 7.3% to $5.9 million for the year ended December 31, 2007 from $5.5 million for the year ended December 31, 2006. This increase was primarily due to an increase in the number of data sales and higher pricing for our Corporate BondTicker[tm] service.

Table of Contents

Investment Income. Investment income increased by $0.6 million or 14.1% to $5.2 million for the year ended December 31, 2007 from $4.6 million for the year ended December 31, 2006. This increase was primarily due to higher cash and cash equivalents and securities available-for-sale balances and a rise in interest rates during the year ended December 31, 2007.

Other. Other revenues decreased by $0.2 million or 13.6% to $1.6 million for the year ended December 31, 2007 from $1.8 million for the year ended December 31, 2006. This decrease was attributable to a decline in the amortization of previously received license fees. We anticipate that license fees will be an insignificant source of revenues for us on a going-forward basis.

Expenses

Our expenses and expenses as a percentage of revenues for the years ended December 31, 2007 and 2006, and the resulting dollar and percentage changes, were as follows:

	Year Ended December 31,					
	2007		2006			
	$	% of Revenues	$	% of Revenues	$ Change	% Change
	($ in thousands)					
Expenses						
Employee compensation and benefits	$ 43,051	46.0%	$ 42,078	50.5%	$ 973	2.3%
Depreciation and amortization	7,170	7.7	6,728	8.1	442	6.6
Technology and communications	7,463	8.0	7,704	9.2	(241)	(3.1)
Professional and consulting fees	7,639	8.2	8,072	9.7	(433)	(5.4)
Occupancy	3,275	3.5	3,033	3.6	242	8.0
Marketing and advertising	1,905	2.0	1,769	2.1	136	7.7
General and administrative	5,889	6.3	5,328	6.4	561	10.5
Total expenses	$ 76,392	81.6%	$ 74,712	89.7%	$ 1,680	2.2%

Employee Compensation and Benefits. Employee compensation and benefits increased by $1.0 million or 2.3% to $43.1 million for the year ended December 31, 2007 from $42.1 million for the year ended December 31, 2006. This increase was primarily attributable to higher incentive compensation costs of $2.6 million and employee benefits and payroll taxes of $1.0 million, offset by a reduction in employee severance costs of $1.3 million, salary expense of $1.1 million and stock compensation costs of $0.7 million. The total number of employees increased to 182 as of December 31, 2007 from 176 as of December 31, 2006. As a percentage of total revenues, employee compensation and benefits expense decreased to 46.0% for the year ended December 31, 2007 from 50.5% for the year ended December 31, 2006.

Depreciation and Amortization. Depreciation and amortization expense increased by $0.4 million or 6.6% to $7.2 million for the year ended December 31, 2007 from $6.7 million for the year ended December 31, 2006. This increase was attributable to increased amortization of capitalized software development costs for our credit default swap and DealerAxess® products. For the year ended December 31, 2007, we capitalized $3.4 million of software

development costs and $1.5 million of computer and related equipment purchases.

Technology and Communications. Technology and communications expense decreased by $0.2 million or 3.1% to $7.5 million for the year ended December 31, 2007 from $7.7 million for the year ended December 31, 2006. This decrease was attributable to lower maintenance and office hardware costs.

Professional and Consulting Fees. Professional and consulting fees decreased by $0.4 million or 5.4% to $7.6 million for the year ended December 31, 2007 from $8.1 million for the year ended December 31, 2006. This decrease was primarily due to a reduction in audit and tax fees of $0.9 million and technology and non-technology consulting costs of $0.6 million, offset by higher recruiting fees of $0.7 million and legal costs of $0.6 million.

Table of Contents

Occupancy. Occupancy costs increased by $0.2 million or 8.0% to $3.3 million for the year ended December 31, 2007 from $3.0 million for the year ended December 31, 2006, primarily due to rent expense for additional leased space in New York City.

Marketing and Advertising. Marketing and advertising expense increased by $0.1 million or 7.7% to $1.9 million for the year ended December 31, 2007 from $1.8 million for the year ended December 31, 2006. This increase was primarily due to higher promotion and public relations costs.

General and Administrative. General and administrative expense increased by $0.6 million or 10.5% to $5.9 million for the year ended December 31, 2007 from $5.3 million for the year ended December 31, 2006. This increase was primarily due to higher travel and entertainment expenses of $0.5 million and relocation expenses of $0.4 million, offset by reduced sales tax of $0.4 million and provision for bad debts of $0.2 million.

Provision for Income Tax

We recorded an income tax provision of $6.9 million and $3.2 million for the years ended December 31, 2007 and 2006, respectively. The increase in the tax provision was primarily attributable to the $8.6 million increase in pre-tax income. With the exception of the payment of certain foreign 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, 2007 was 40.2% compared to 37.0% for the year ended December 31, 2006. The 2007 provision includes an adjustment to the deferred tax asset balance of $0.5 million to reflect the tax rate anticipated to be in effect when the temporary differences are expected to reverse, as well as changes in enacted state and foreign tax rates. 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.

Quarterly Results of Operations

Our quarterly results have varied significantly as a result of:

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

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

expansion of the products we offer to our clients; and

variance in our expenses.

Table of Contents

The following table sets forth certain consolidated quarterly income statement data for the eight quarters ended December 31, 2008. 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.

	Three Months Ended							
	Mar 31, 2007	Jun 30, 2007	Sep 30, 2007	Dec 31, 2007	Mar 31, 2008	Jun 30, 2008	Sep 30, 2008	Dec 31, 2008
	(In thousands) (Unaudited)							
Revenues								
Commissions								
U.S. high-grade(1)	$ 13,682	$ 14,532	$ 11,982	$ 12,345	$ 12,402	$ 12,554	$ 10,777	$ 10,814
Eurobond(2)	4,754	4,456	4,889	4,729	4,589	5,120	4,427	4,010
Other(3)	2,257	2,468	2,107	2,013	2,304	2,464	2,015	2,052
Total commissions	20,693	21,456	18,978	19,087	19,295	20,138	17,219	16,876
Technology products and services(4)	25	575	50	92	767	2,676	2,646	2,466
Information and user access fees(5)	1,354	1,468	1,535	1,520	1,481	1,442	1,562	1,540
Interest income(6)	1,222	1,258	1,332	1,430	991	761	963	763
Other(7)	471	547	303	247	405	620	291	183
Total revenues	23,765	25,304	22,198	22,376	22,939	25,637	22,681	21,828
Expenses								
Employee compensation and benefits	11,503	11,010	10,258	10,280	11,018	11,576	11,173	10,043
Depreciation and amortization	1,911	1,879	1,686	1,694	1,780	1,816	2,494	1,789
Technology and communications	1,763	1,935	1,897	1,868	2,106	2,048	2,007	2,151
Professional and consulting fees	1,836	1,786	1,883	2,134	2,153	2,521	1,822	1,675
Occupancy	749	805	869	852	767	739	660	725
Marketing and advertising	353	530	481	541	583	683	646	869
General and administrative	1,181	1,320	1,481	1,907	1,568	1,495	1,781	1,564
Total expenses	19,296	19,265	18,555	19,276	19,975	20,878	20,583	18,816

Income before income taxes	4,469	6,039	3,643	3,100	2,964	4,759	2,098	3,012
Provision for income taxes	2,019	2,487	1,233	1,192	1,368	1,911	579	1,076
Net income	$ 2,450	$ 3,552	$ 2,410	$ 1,908	$ 1,596	$ 2,848	$ 1,519	$ 1,936

(1) Of these amounts, $5,964, $6,177, $4,756, $4,944, $1,920, $2,137, $1,928 and $1,761, respectively, were from related parties.

(2) Of these amounts, $1,355, $1,180, $1,235, $1,191, $804, $873, $788 and $738, respectively, were from related parties.

(3) Of these amounts, $1,259, $1,335, $1,002, $1,045, $429, $437, $378 and $273, respectively, were from related parties.

(4) Of these amounts, $0, $0, $0, $0, $15, $7, $3 and $8, respectively, were from related parties.

Table of Contents

(5) Of these amounts, $186, $190, $218, $204, $53, $73, $81 and $69, respectively, were from related parties.

(6) Of these amounts, $528, $386, $474, $674, $267, $209, $310 and $379, respectively, were from related parties.

(7) Of these amounts, $102, $99, $150, $101, $43, $45, $45 and $38, respectively, were from related parties.

The following tables set forth trading volume and average fee per million traded for the eight quarters ended December 31, 2008.

	Three Months Ended							
	Mar 31, 2007	Jun 30, 2007	Sep 30, 2007	Dec 31, 2007	Mar 31, 2008	Jun 30, 2008	Sep 30, 2008	Dec 31, 2008
	(In billions) (Unaudited)							
Trading Volume Data								
U.S. high-grade	$ 60.8	$ 67.5	$ 39.9	$ 40.9	$ 38.8	$ 42.7	$ 27.5	$ 25.6
Eurobond	28.3	23.8	14.8	10.6	8.1	11.8	8.6	7.2
Other	15.3	20.1	21.0	16.9	17.6	15.3	12.9	10.4
Total	$ 104.4	$ 111.4	$ 75.7	$ 68.4	$ 64.5	$ 69.8	$ 49.0	$ 43.2

	Three Months Ended							
	Mar 31, 2007	Jun 30, 2007	Sep 30, 2007	Dec 31, 2007	Mar 31, 2008	Jun 30, 2008	Sep 30, 2008	Dec 31, 2008
	(Unaudited)							
Average Fee Per Million								
U.S. high-grade								
Transaction	$ 74	$ 75	$ 95	$ 105	$ 112	$ 111	$ 118	$ 150
Total	$ 225	$ 215	$ 300	$ 302	$ 320	$ 294	$ 392	$ 422
Eurobond								
Transaction	$ 168	$ 140	$ 99	$ 106	$ 105	$ 110	$ 100	$ 131
Total	$ 168	$ 187	$ 330	$ 448	$ 567	$ 434	$ 516	$ 556
Other	$ 148	$ 123	$ 100	$ 121	$ 131	$ 161	$ 156	$ 200
All Products								
Transaction	$ 110	$ 97	$ 97	$ 109	$ 116	$ 122	$ 126	$ 159
Total	$ 198	$ 193	$ 251	$ 279	$ 299	$ 289	$ 352	$ 391
Number of U.S. trading days	62	63	63	62	61	64	64	62
Number of U.K. trading days	64	61	64	64	62	63	65	64

Liquidity and Capital Resources

During the past three years, we have met our funding requirements through cash on hand, internally generated funds and the issuance of Series B Preferred Stock. Cash and cash equivalents and securities available-for-sale totaled

$142.6 million at December 31, 2008, $124.3 million at December 31, 2007 and $131.0 million at December 31, 2006. Other than a capital lease obligation amounting to $0.7 million as of December 31, 2008, we have no long-term or short-term debt and do not maintain bank lines of credit.

Table of Contents

Our cash flows were as follows:

	Year Ended December 31,		
	2008	2007	2006
	(In thousands)		
Net cash provided by operating activities	$ 27,634	$ 29,120	$ 17,101
Net cash (used in) provided by investing activities	(22,499)	(11,179)	4,231
Net cash provided by (used in) financing activities	30,311	(27,015)	2,818
Effect of exchange rate changes on cash	(834)	(215)	(339)
Net increase (decrease) for the period	$ 34,612	$ (9,289)	$ 23,811

Operating Activities

Net cash provided by operating activities of $27.6 million for the year ended December 31, 2008 consisted of net income of $7.9 million, adjusted for non-cash charges, primarily consisting of depreciation and amortization of $7.9 million, stock-based compensation expense of $7.1 million, deferred taxes of $4.8 million and provision for bad debts of $1.3 million, offset by an increase in cash used for working capital of $1.3 million. The use of working capital primarily resulted from a decrease in accrued employee compensation of $4.2 million and a decrease in accounts payable, accrued expenses and other liabilities of $3.2 million, offset by a decrease in accounts receivable of $5.8 million.

Net cash provided by operating activities of $29.1 million for the year ended December 31, 2007 consisted of net income of $10.3 million, adjusted for non-cash charges, primarily consisting of depreciation and amortization of $7.2 million, stock-based compensation expense of $5.6 million and deferred taxes of $4.7 million and a decrease in working capital of $0.9 million. The decrease in working capital primarily resulted from an increase in accrued employee compensation of $1.5 million, offset by an increase in accounts receivable of $1.4 million.

Net cash provided by operating activities of $17.1 million for the year ended December 31, 2006 consisted of net income of $5.4 million, adjusted for non-cash charges, primarily consisting of depreciation and amortization of $6.7 million, stock-based compensation expense of $6.4 million, deferred taxes of $0.9 million and a provision for bad debts of $0.7 million, offset by an increase in cash used for working capital of $3.0 million. The use of working capital primarily resulted from an increase in accounts receivable of $3.3 million.

Investing Activities

Net cash used in investing activities of $22.5 million for the year ended December 31, 2008 primarily consisted of $34.9 million for the acquisition of Greenline, net maturities of securities available-for-sale of $16.3 million, purchases of furniture, equipment and leasehold improvements of $1.7 million and capitalization of software development costs of $2.4 million.

Net cash used in investing activities of $11.2 million for the year ended December 31, 2007 primarily consisted of the acquisition of TWS for $3.1 million, net purchases of securities available-for-sale of $2.5 million, purchases of furniture, equipment and leasehold improvements of $1.5 million and capitalization of software development costs of $3.4 million.

Net cash provided by investing activities of $4.2 million for the year ended December 31, 2006 consisted of net proceeds of securities available-for-sale of $11.0 million, offset by purchases of furniture, equipment and leasehold improvements of $2.7 million and capitalization of software development costs of $4.1 million.

Financing Activities

Net cash provided by financing activities of $30.3 million for the year ended December 31, 2008 primarily consisted of the net proceeds from the issuance of the Series B Preferred Stock and related common stock purchase warrants of $33.5 million, offset by the purchase of treasury stock of $2.8 million.

Table of Contents

Net cash used in financing activities of $27.0 million for the year ended December 31, 2007 primarily consisted of $34.6 million for the purchase of treasury stock, offset by proceeds from the exercise of stock options of $5.2 million and excess tax benefits from stock-based compensation of $2.2 million.

Net cash provided by financing activities of $2.8 million for the year ended December 31, 2006 consisted of proceeds from the exercise of stock options of $3.8 million and excess tax benefits from stock-based compensation of $1.7 million, offset by the purchase of treasury stock of $2.7 million.

Other Factors Influencing Liquidity and Capital Resources

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

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

We have three regulated subsidiaries, MarketAxess Corporation, MarketAxess Europe Limited and MarketAxess Canada Ltd. MarketAxess Corporation is a registered broker-dealer in the U.S., MarketAxess Europe Limited is a registered multilateral trading facility in the U.K. and MarketAxess Canada Ltd. is a registered Alternative Trading System in the Province of Ontario. As such, they are subject to minimum regulatory capital requirements imposed by their respective market regulators that are intended to ensure general financial soundness and liquidity based on certain minimum capital requirements. The relevant regulations prohibit a registrant from repaying borrowings from its parent or affiliates, paying cash dividends, making loans to its parent or affiliates or otherwise entering into transactions that result in a significant reduction in its regulatory net capital position without prior notification to or approval from its principal regulator. The capital structures of our subsidiaries are designed to provide each with capital and liquidity consistent with its business and regulatory requirements. The following table sets forth the capital requirements, as defined, that the Company s subsidiaries were required to maintain as of December 31, 2008:

	MarketAxess Corporation	MarketAxess Europe Limited	MarketAxess Canada Limited
		(In thousands)	
Net capital	$ 25,194	$ 15,965	$ 411
Minimum net capital required	890	2,550	254

Excess net capital	$ 24,304	$ 13,415	$ 157

MarketAxess Corporation operates an anonymous matching service for its broker-dealer clients and during 2008 extended its trading counterparty role to include the execution of certain bond transactions between institutional investor and broker-dealer clients. MarketAxess Corporation executes all such trades on a riskless principal basis, which are cleared and settled by an independent clearing broker. Under a securities clearing agreement with the independent third party, MarketAxess Corporation maintains a collateral deposit with the clearing broker in the form of cash or U.S. government securities. As of December 31, 2008 and 2007, the collateral deposit included in securities and cash provided as collateral in the Consolidated Statements of Financial Condition was $0.5 million. MarketAxess Corporation is exposed to credit risk in the event a counterparty does not fulfill its

Table of Contents

obligation to complete a transaction. Pursuant to the terms of the securities clearing agreement between MarketAxess Corporation and the independent clearing broker, the clearing broker has the right to charge MarketAxess Corporation for losses resulting from a counterparty s failure to fulfill its contractual obligations. The losses are not capped at a maximum amount and apply to all trades executed through the clearing broker. At December 31, 2008, MarketAxess Corporation had not recorded any liabilities with regard to this right.

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

Effects of Inflation

Because the majority of our assets are 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, 2008, we had the following contractual obligations and commitments:

	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
			(In thousands)		
Operating leases	$ 7,507	$ 2,270	$ 1,775	$ 1,247	$ 2,215
Capital leases	824	168	336	320	
Earn-out obligation	1,368	1,368			
Foreign currency forward contract	19,777	19,777			
	$ 29,476	$ 23,583	$ 2,111	$ 1,567	$ 2,215

As of December 31, 2008, we had unrecognized tax benefits of $2.7 million. Due to the nature of the underlying positions, it is not currently possible to schedule the future payment obligations by period. In addition, in connection with the acquisition of Greenline, the sellers are eligible to receive up to an additional of $1.5 million in cash, subject to Greenline attaining certain earn-out targets in 2009. The amount of the earn-out ultimately payable, if any, is currently unknown.

Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value and requires enhanced disclosures about fair value measurements. Effective January 1, 2008, we adopted SFAS 157 for all financial assets and liabilities and for

non-financial assets and liabilities recognized or disclosed at fair value at least annually. In February 2008, the FASB issued Staff Position No. 157-2, which delayed the effective date of SFAS 157 to fiscal years beginning after November 15, 2008 for non-financial assets and liabilities, except for items that are recognized or disclosed at fair value on a recurring basis. We are currently evaluating the impact of SFAS 157 on valuation of all other non-financial assets and liabilities. In October 2008, the FASB issued FASB Staff Position No. 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active (FSP No. 157-3), to provide guidance on determining the fair value of financial instruments in inactive markets. FSP No. 157-3 became effective for us upon issuance. The adoption of SFAS 157 and FSP No. 157-3 had no material effect on the Consolidated Statements of Financial Condition and Consolidated Statements of Operations.

Table of Contents

In February 2007, the FASB issued SFAS No. 159, Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159). SFAS 159 permits companies to elect to measure eligible financial instruments, commitments and certain other arrangements at fair value at specified election dates, with changes in fair value recognized in earnings at each subsequent reporting period. We did not elect the fair value option for any of its existing financial instruments. Accordingly, adoption of SFAS 159 had no material effect on the Consolidated Statements of Financial Condition and Consolidated Statements of Operations.

In December 2007, the FASB issued SFAS No. 141 (revised), Business Combinations (SFAS 141R). The standard changes the accounting for business combinations, including the measurement of acquirer shares issued in consideration for a business combination, the recognition of contingent consideration, the accounting for pre-acquisition gain and loss contingencies, the recognition of capitalized in-process research and development, the accounting for acquisition-related restructuring cost accruals, the treatment of acquisition-related transaction costs and the recognition of changes in the acquirer s income tax valuation allowance. SFAS 141R is effective for fiscal years beginning after December 15, 2008.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, an Amendment of ARB No. 51 (SFAS 160). SFAS 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 is effective for fiscal years beginning after December 15, 2008. We do not expect SFAS 160 to have a material impact on its Consolidated Financial Statements.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities An Amendment of FASB Statement No. 133 (SFAS 161). SFAS 161 expands the disclosure requirements for derivative instruments and hedging activities. SFAS 161 is effective for fiscal years beginning after November 15, 2008. We do not expect SFAS 161 to have a material impact on its Consolidated Financial Statements.

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, 2008, we had a $35.2 million investment in securities available-for-sale. Adverse movements, such as a 10% decrease in the value of these securities or a downturn or disruption in the markets for these securities, could result in a substantial loss. In addition, principal gains and losses resulting from these securities could on occasion have a disproportionate effect, positive or negative, on our financial condition and results of operations for any particular reporting period.

See 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 short-term fixed-income securities in which we invest. As of December 31, 2008, our cash and cash equivalents and securities available-for-sale amounted to $142.6 million and were primarily invested in money market instruments, federal agency issues and municipal securities. We do not maintain an inventory of bonds that are traded on our platform.

Table of Contents

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, 2008, the notional value of our foreign currency forward contracts was $20.0 million. We do not speculate in any derivative instruments.

Credit Risk

We act as a riskless principal through our subsidiary, MarketAxess Corporation, in certain transactions that we execute between clients. We act as an intermediary in these transactions by serving as counterparty to both the buyer and the seller in matching back-to-back bond trades, which are then settled through a third-party clearing organization. Settlement typically occurs within one to three trading days after the trade date. Cash settlement of the transaction occurs upon receipt or delivery of the underlying instrument that was traded.

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

Table of Contents

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

MARKETAXESS HOLDINGS INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Management s Report on Internal Control Over Financial Reporting	69
Audited Consolidated Financial Statements	
Report of Independent Registered Public Accounting Firm	70
Consolidated Statements of Financial Condition As of December 31, 2008 and 2007	71
Consolidated Statements of Operations For the years ended December 31, 2008, 2007 and 2006	72
Consolidated Statements of Changes in Stockholders Equity and Accumulated Other Comprehensive Loss For the years ended December 31, 2008, 2007 and 2006	73
Consolidated Statements of Cash Flows For the years ended December 31, 2008, 2007 and 2006	74
Notes to Consolidated Financial Statements	75

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.

Table of Contents

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, 2008. 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, 2008.

The effectiveness of our internal control over financial reporting as of December 31, 2008 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

Table of Contents

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 present fairly, in all material respects, the financial position of MarketAxess Holdings Inc. and its subsidiaries at December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2008 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, 2008, 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 25, 2009

Table of Contents

MARKETAXESS HOLDINGS INC.

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	As of December 31	
	2008	2007
	(In thousands, except share and per share amounts)	
ASSETS		
Cash and cash equivalents	$ 107,323	$ 72,711
Securities available-for-sale	35,227	51,579
Securities and cash provided as collateral	4,316	4,455
Accounts receivable, including receivables from related parties of $1,930 and $6,290, respectively, net of allowance of $1,012 and $912 as of December 31, 2008 and 2007, respectively	13,283	18,397
Furniture, equipment and leasehold improvements, net of accumulated depreciation and amortization	3,369	2,931
Software development costs, net of accumulated amortization	4,521	5,759
Goodwill and intangible assets, net of accumulated amortization	39,546	3,389
Prepaid expenses and other assets	3,177	1,938
Deferred tax assets, net	35,666	37,207
Total assets	$ 246,428	$ 198,366
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities		
Accrued employee compensation	$ 10,439	$ 14,311
Deferred revenue	2,303	826
Accounts payable, accrued expenses, and other liabilities, including payables to related parties of $11 and $177 as of December 31, 2008 and 2007, respectively	8,878	8,832
Total liabilities	21,620	23,969
Commitments and Contingencies (Note 13)		
Series B Preferred Stock, $.001 par value, 35,000 shares authorized, issued and outstanding as of December 31, 2008, liquidation preference of $1,000 per share	30,315	
Stockholders equity		
Preferred stock, $0.001 par value, 4,855,000 shares authorized, no shares issued and outstanding as of December 31, 2008 and 2007		
Series A Preferred Stock, $0.001 par value, 110,000 shares authorized, no shares issued and outstanding as of December 31, 2008 and 2007		
Common stock voting, $0.003 par value, 110,000,000 shares authorized as of December 31, 2008 and 2007; 33,971,309 shares and 33,082,371 shares issued as of December 31, 2008 and 2007, respectively	102	99

Common stock non-voting, $0.003 par value, 10,000,000 shares authorized and 2,585,654 shares issued and outstanding as of December 31, 2008 and 2007	9	9
Additional paid-in capital	305,508	289,988
Receivable for common stock subscribed	(951)	(834)
Treasury stock Common stock voting, at cost, 2,864,120 shares and 2,642,714 shares as of December 31, 2008 and 2007, respectively	(40,000)	(37,227)
Accumulated deficit	(68,855)	(76,754)
Accumulated other comprehensive loss	(1,320)	(884)
Total stockholders equity	194,493	174,397
Total liabilities and stockholders equity	$ 246,428	$ 198,366

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

Table of Contents

MARKETAXESS HOLDINGS INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	2008	2007	2006
	(In thousands, except share and per share amounts)		
Revenues			
Commissions			
U.S. high-grade, including $7,746, $21,840 and $23,701 from related parties for the years ended December 31, 2008, 2007 and 2006, respectively	$ 46,547	$ 52,541	$ 47,752
Eurobond, including $3,207, $4,960 and $6,630 from related parties for the years ended December 31, 2008, 2007 and 2006, respectively	18,146	18,828	15,368
Other, including $1,513, $4,641 and $5,295 from related parties for the years ended December 31, 2008, 2007 and 2006, respectively	8,835	8,845	8,310
Total commissions	73,528	80,214	71,430
Technology products and services, including $33, $0 and $0 from related parties for the years ended December 31, 2008, 2007 and 2006, respectively	8,555	742	
Information and user access fees, including $276, $798 and $1,177 from related parties for the years ended December 31, 2008, 2007 and 2006, respectively	6,025	5,877	5,477
Investment income, including $1,165, $2,062 and $1,007 from related parties for the years ended December 31, 2008, 2007 and 2006, respectively	3,478	5,242	4,595
Other, including $169, $452, and $510 from related parties for the years ended December 31, 2008, 2007 and 2006, respectively	1,499	1,568	1,814
Total revenues	93,085	93,643	83,316
Expenses			
Employee compensation and benefits	43,810	43,051	42,078
Depreciation and amortization	7,879	7,170	6,728
Technology and communications	8,311	7,463	7,704
Professional and consulting fees	8,171	7,639	8,072
Occupancy	2,891	3,275	3,033
Marketing and advertising	2,781	1,905	1,769
General and administrative, including $57, $207 and $64 to related parties for the years ended December 31, 2008, 2007 and 2006, respectively	6,408	5,889	5,328

Total expenses	80,251	76,392	74,712
Income before income taxes	12,834	17,251	8,604
Provision for income taxes	4,935	6,931	3,183
Net income	$ 7,899	$ 10,320	$ 5,421
Net income per common share			
Basic	$ 0.23	$ 0.32	$ 0.18
Diluted	$ 0.22	$ 0.30	$ 0.15
Weighted average shares outstanding			
Basic	32,830,923	32,293,036	30,563,437
Diluted	35,737,379	34,453,195	35,077,348

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

Table of Contents

MARKETAXESS HOLDINGS INC.

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

	Common Stock Voting	Common Stock Non-Voting	Warrants	Additional Paid-In Capital	Unearned Compensation	Receivable for Common Stock Subscribed	Treasury Stock-Common Stock Voting	Accumulated Deficit	Accumulated Other Comprehensive Loss	T Stock E
						(In thousands)				
at December 31,	$ 76	$ 13	$ 17,693	$ 249,122	$ (2,021)	$ (1,042)	$	$ (92,495)	$ (482)	$ 1
ensive income:										
me								5,421		
ve translation nt and foreign exchange hedge,									(327)	
ed net gains on -for-sale, net of									76	
mprehensive										
sed compensation of stock options	3			6,432						
s of restricted	3			3,792						
x benefits from sed compensation				1,674						
on from g to voting stock	2	(2)								
of warrants	4		(6,035)	6,031						
of treasury stock							(2,653)			
ication of compensation implementation 123R				(2,021)	2,021					
at December 31,	88	11	11,658	265,030		(1,042)	(2,653)	(87,074)	(733)	1

ensive income:									
me							10,320		
ve translation									
nt and foreign									
exchange hedge,									
								(213)	
ed net gains on									
-for-sale, net of									
								62	
mprehensive									
adoption of									
				324					
sed compensation				5,634					
of stock options									
s of restricted									
	2			5,189					
x benefits from									
sed compensation				2,160					
on from									
ng to voting									
stock	2	(2)							
of warrants	7		(11,658)	11,651					
nt of promissory									
					208				
of treasury stock						(34,574)			
at December 31,									
	99	9		289,988	(834)	(37,227)	(76,754)	(884)	
ensive income:									
me							7,899		
ve translation									
nt and foreign									
exchange hedge,									
								(410)	
ed net loss on									
-for-sale, net of									
								(26)	
mprehensive									
sed compensation				7,061					
of common stock									
the acquisition of									
e Financial									
gies, Inc.	2			5,773					
of stock options	1			(318)					
s of restricted									

t of withholding											
nt in windfall											
k-based											
ation				(191)							
of common stock											
warrant				3,195							
nt of promissory											
adjustment of											
r principal and											
alances							(117)				
of treasury stock								(2,773)			
at December 31,	$ 102	$ 9	$	$ 305,508	$	$	(951)	$ (40,000)	$ (68,855)	$ (1,320)	$

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

Table of Contents

MARKETAXESS HOLDINGS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2008	2007	2006
	(In thousands)		
Cash flows from operating activities			
Net income	$ 7,899	$ 10,320	$ 5,421
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	7,879	7,170	6,728
Stock-based compensation expense	7,061	5,634	6,432
Deferred taxes	4,819	4,696	903
Provision for bad debts	1,260	412	661
Changes in operating assets and liabilities, net of businesses acquired:			
Decrease (increase) in accounts receivable, including decreases (increases) of $4,360, $2,289 and ($1,828) from related parties for the years ended December 31, 2008, 2007 and 2006, respectively	5,785	(1,362)	(3,294)
(Increase) decrease in prepaid expenses and other assets	(221)	81	855
(Decrease) increase in accrued employee compensation	(4,228)	1,480	774
Increase (decrease) in deferred revenue	618	(97)	(460)
(Decrease) increase in accounts payable, accrued expenses and other liabilities, including (decrease) increase of ($166), $67 and $22 to related parties for the years ended December 31, 2008, 2007 and 2006, respectively	(3,238)	786	(919)
Net cash provided by operating activities	27,634	29,120	17,101
Cash flows from investing activities			
Acquisition of businesses, net of cash acquired (Note 3)	(34,918)	(3,139)	
Securities available-for-sale:			
Proceeds from maturities and sales	46,281	46,242	91,127
Purchases	(29,959)	(48,722)	(80,110)
Securities and cash provided as collateral	139	(657)	1
Purchases of furniture, equipment and leasehold improvements	(1,677)	(1,533)	(2,661)
Capitalization of software development costs	(2,365)	(3,370)	(4,126)
Net cash (used in) provided by investing activities	(22,499)	(11,179)	4,231
Cash flows from financing activities			
Issuance of Series B Preferred Stock and common stock purchase warrants	33,510		
Proceeds from exercise of stock options and grants of restricted stock, net of withholding tax	(317)	5,191	3,797
	(191)	2,160	1,674

(Decrement in windfall) excess tax benefits from stock-based compensation			
Purchase of treasury stock common stock voting	(2,773)	(34,574)	(2,653)
Other	82	208	
Net cash provided by (used in) financing activities	30,311	(27,015)	2,818
Effect of exchange rate changes on cash	(834)	(215)	(339)
Cash and cash equivalents			
Net increase (decrease) for the period	34,612	(9,289)	23,811
Beginning of period	72,711	82,000	58,189
End of period	$ 107,323	$ 72,711	$ 82,000
Supplemental cash flow information:			
Cash paid during the year			
Cash paid for income taxes	$ 452	$ 246	$ 263
Non-cash activity			
Issuance of common stock in connection with business acquisition	$ 5,775	$	$
Capital lease obligation	$ 677	$	$
Exercise of warrants and issuance of common stock	$	$ 11,658	$ 6,035

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

Table of Contents

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 certain other types of fixed-income securities through which the Company s active institutional investor clients can access the liquidity provided by its broker-dealer clients. The Company s multi-dealer trading platform allows its institutional investor clients to simultaneously request competitive, executable bids or offers from multiple broker-dealers, and to execute trades with the broker-dealer of their choice. The Company offers its clients the ability to trade U.S. high-grade corporate bonds, European high-grade corporate bonds, credit default swaps, agencies, high yield and emerging markets bonds. The Company s DealerAxess® trading service allows dealers to trade fixed-income securities and credit default swaps with each other on its platform. Through its Corporate BondTicker™ service, the Company provides fixed-income market data, analytics and compliance tools that help its clients make trading decisions. In addition, the Company provides FIX (Financial Information eXchange) message management tools, connectivity solutions and ancillary technology services that facilitate the electronic communication of order information between trading counterparties.

The Company s stockholder broker-dealer clients as of January 1, 2008 were BNP Paribas, Credit Suisse and JPMorgan. These broker-dealer clients constitute related parties of the Company (together, the Stockholder Broker-Dealer Clients). For 2007 and 2006, a total of seven dealers and nine dealers, respectively, were considered to be Stockholder Broker-Dealer Clients. See Note 10, Related Parties.

2. Significant Accounting Policies

Basis of Presentation

The consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany transactions and balances have been eliminated.

Cash and Cash Equivalents

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

Securities and Cash Provided as Collateral

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

Securities Available-for-Sale

The Company classifies its marketable securities as available-for-sale securities. Unrealized marketable securities gains and losses 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. Declines in fair values that are considered other-than-temporary are recorded as charges in the Consolidated Statements of Operations. No charges for other-than-temporary declines were recorded during 2008, 2007 and 2006.

Table of Contents

MARKETAXESS HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Allowance for Doubtful Accounts

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

The allowance for doubtful accounts was $1.0 million, $0.9 million and $0.8 million as of December 31, 2008, 2007 and 2006, respectively. The provision for bad debts was $1.3 million, $0.4 million and $0.7 million for the years ended December 31, 2008, 2007 and 2006, respectively. Write-offs and other charges against the allowance for doubtful accounts were $0.9 million, $0.3 million and $0.3 million for the years ended December 31, 2008, 2007 and 2006, respectively.

Depreciation and Amortization

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

Software Development Costs

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

Foreign Currency Translation and Forward Contracts

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

The Company enters into foreign currency forward contracts to hedge its net investment in its U.K. subsidiary. In accordance with Statement of Financial Accounting Standards (SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activities, gains and losses on these transactions are deferred and 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.

Table of Contents

MARKETAXESS HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Technology products and services. The Company recognizes revenues from technology software licenses, maintenance and support services (referred to as post-contract technical support or PCS) and professional consulting services in accordance with the provisions of the American Institute of Certified Public Accountants Statement of Position (SOP) 97-2, Software Revenue Recognition (SOP 97-2) as amended by SOP 98-4 and SOP 98-9 and clarified by Staff Accounting Bulletin (SAB) 101, SAB No. 104 and Emerging Issues Task Force (EITF) 00-21 and SOP 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts (SOP 81-1). Revenue is generally recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collection is considered probable. The Company generally sells software licenses and services together as part of multiple-element arrangements. The Company also enters into contracts for technology integration consulting services unrelated to any software product. When the Company enters into a multiple-element arrangement, it uses the residual method to allocate the total fee among the elements of the arrangement. Under the residual method, license revenue is recognized upon delivery when vendor-specific objective evidence of fair value exists for all of the undelivered elements in the arrangement, but does not exist for one or more of the delivered elements in the arrangement. Each license arrangement requires that the Company analyze the individual elements in the transaction and estimate the fair value of each undelivered element, which typically includes PCS and professional services. License revenue consists of license fees charged for the use of the Company s products under perpetual and, to a lesser extent, term license arrangements. License revenue from a perpetual arrangement is generally recognized upon delivery while license revenue from a term arrangement is recognized ratably over the duration of the arrangement on a straight-line basis. If the professional services are essential to the functionality of the software product, the license revenue is recognized upon customer acceptance or satisfaction of the service obligation.

Professional services are generally separately priced, are available from a number of suppliers and are typically not essential to the functionality of the Company s software products. Revenues from these services are recognized separately from the license fee if the arrangements qualify as service transactions as defined by SOP 97-2. Generally, revenue from time-and-materials consulting contracts is recognized as services are performed.

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

Revenues from contracts for technology integration consulting services are recognized on the percentage-of-completion method in accordance with SOP 81-1. Percentage-of-completion accounting involves calculating the percentage of services provided during the reporting period compared to the total estimated services to be provided over the duration of the contract. If estimates indicate that a contract loss will occur, a loss provision is recorded in the period in which the loss first becomes probable and reasonably estimable. Contract losses are determined to be the amount by which the estimated direct and indirect costs of the contract exceed the estimated total revenues that will be generated by the contract. There were no contract loss provisions recorded as of December 31, 2008 and 2007. Revenues recognized in excess of billings are recorded as unbilled services. Billings in excess of revenues recognized are recorded as deferred revenues until revenue recognition criteria are met.

Stock-Based Compensation

The Company measures and recognizes compensation expense for all share-based payment awards in accordance with SFAS No. 123 (revised 2004), Share-Based Payment (SFAS 123R). This statement requires that compensation expense for all share-based awards be recognized 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. The Company adopted SFAS 123R using the modified prospective transition method, which required the

Table of Contents

MARKETAXESS HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

application of the accounting standard as of January 1, 2006. In accordance with the modified prospective transition method, the Company s Consolidated Financial Statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS 123R.

Income Taxes

Income taxes are accounted for using the asset and liability method in accordance with SFAS No. 109, Accounting for Income Taxes (SFAS 109). 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.

Business Combinations, Goodwill and Intangible assets

Business acquisitions are accounted for under the purchase method of accounting in accordance with SFAS No. 141, Business Combinations. 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.

In accordance with SFAS No. 142, Goodwill and Other Intangible Assets, goodwill and other intangibles with indefinite lives are no longer amortized. An impairment review of goodwill is performed on an annual basis and more frequently if circumstances change. Intangible assets with definite lives, including purchased technologies, customer relationships and other intangible assets, are amortized on a straight-line basis over their estimated useful lives, ranging from five to ten years. Intangible assets are assessed for impairment when events or circumstances indicate a possible impairment pursuant to the provisions of SFAS No. 144, Accounting for Long Lived Assets and for Long Lived Assets to be Disposed Of.

Earnings Per Share

Earnings per share (EPS) is calculated in accordance with SFAS No, 128, Earnings Per Share and EITF 03-6, Participating Securities and the Two-Class Method under FASB Statement No. 128 (EITF 03-6). Basic earnings per share is computed by dividing the net income attributable to common stock by the weighted-average number of shares of common stock outstanding for the period, including consideration of the two-class method to the extent that participating securities were outstanding during the period. Under the two-class method, undistributed net income is allocated to common stock and participating securities based on their respective right to share in dividends. The Series B Preferred Stock is convertible into shares of common stock and also includes a right whereby, upon the declaration or payment of a dividend or distribution on the common stock, a dividend or distribution must also be declared or paid on the Series B Preferred Stock based on the number of shares of common stock into which such securities were convertible at the time. Due to these rights, under EITF 03-6, the Series B Preferred Stock is considered a participating security requiring the use of the two-class method for the computation of basic EPS.

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

Table of Contents

MARKETAXESS HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value and requires enhanced disclosures about fair value measurements. Effective January 1, 2008, the Company adopted SFAS 157 for all financial assets and liabilities and for non-financial assets and liabilities recognized or disclosed at fair value at least annually. In February 2008, the FASB issued Staff Position No. 157-2, which delayed the effective date of SFAS 157 to fiscal years beginning after November 15, 2008 for non-financial assets and liabilities, except for items that are recognized or disclosed at fair value on a recurring basis. The Company is currently evaluating the impact of SFAS 157 on valuation of all other non-financial assets and liabilities. In October 2008, the FASB issued FASB Staff Position No. 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active (FSP No. 157-3), to provide guidance on determining the fair value of financial instruments in inactive markets. FSP No. 157-3 became effective for the Company upon issuance. The adoption of SFAS 157 and FSP No. 157-3 had no material effect on the Consolidated Statements of Financial Condition and Consolidated Statements of Operations.

In February 2007, the FASB issued SFAS No. 159, Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159). SFAS 159 permits companies to elect to measure eligible financial instruments, commitments and certain other arrangements at fair value at specified election dates, with changes in fair value recognized in earnings at each subsequent reporting period. The Company did not elect the fair value option for any of its existing financial instruments. Accordingly, adoption of SFAS 159 had no material effect on the Consolidated Statements of Financial Condition and Consolidated Statements of Operations.

In December 2007, the FASB issued SFAS No. 141 (revised), Business Combinations (SFAS 141R). The standard changes the accounting for business combinations, including the measurement of acquirer shares issued in consideration for a business combination, the recognition of contingent consideration, the accounting for pre-acquisition gain and loss contingencies, the recognition of capitalized in-process research and development, the accounting for acquisition-related restructuring cost accruals, the treatment of acquisition-related transaction costs and the recognition of changes in the acquirer s income tax valuation allowance. SFAS 141R is effective for fiscal years beginning after December 15, 2008.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, an Amendment of ARB No. 51 (SFAS 160). SFAS 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 is effective for fiscal years beginning after December 15, 2008. The Company does not expect SFAS 160 to have a material impact on its Consolidated Financial Statements.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities An Amendment of FASB Statement No. 133 (SFAS 161). SFAS 161 expands the disclosure requirements for derivative instruments and hedging activities. SFAS 161 is effective for fiscal years beginning after November 15, 2008. The Company does not expect SFAS 161 to have a material impact on its Consolidated Financial Statements.

Table of Contents

MARKETAXESS HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Reclassifications

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

3. Acquisitions

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

The aggregate consideration for the Greenline acquisition was $41.1 million, comprised of $34.7 million in cash, 725,923 shares of common stock valued at $5.8 million and $0.6 million of acquisition-related costs. In addition, the sellers are eligible to receive up to an aggregate of $3.0 million in cash, subject to Greenline attaining certain earn-out targets in 2008 and 2009. A total of $1.4 million will be paid to the sellers in 2009 based on the 2008 earn-out target, bringing the aggregate consideration to $42.4 million. A total of $2.0 million of the purchase price has been deposited into escrow accounts to satisfy potential indemnity claims. Absent any indemnity claims, the final amount held in escrow will be distributed to the sellers on March 6, 2009. The shares of common stock to be issued to each selling shareholder of Greenline shall be held by the Company and were or will be released in two equal installments on December 20, 2008 and December 20, 2009, respectively. The value ascribed to the shares was discounted from the market value to reflect the non-marketability of such shares during the restriction period.

The Company has completed a preliminary allocation of the purchase price to the fair value of assets acquired and liabilities assumed at the date of acquisition. It is possible that the purchase price allocation will be adjusted upon finalization of the accounting for the acquired assets. The preliminary purchase price allocation is as follows (in thousands):

Cash	$ 6,406
Accounts receivable	2,139
Amortizable intangibles	8,330
Goodwill	29,853
Deferred tax assets, net	2,754
Other assets, including investment in TradeHelm	1,428
Accounts payable, accrued expenses and deferred revenue	(8,492)
Total purchase price	$ 42,418

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

The following unaudited pro forma consolidated financial information reflects the results of operations of the Company for the years ended December 31, 2008 and 2007, as if the acquisition of Greenline had occurred as of the beginning of the period presented, after giving effect to certain purchase accounting adjustments. These pro forma results are not necessarily indicative of what the Company s operating results would have been had the acquisition

Table of Contents

MARKETAXESS HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

actually taken place as of the beginning of the period presented. The pro forma financial information includes the amortization charges from acquired intangible assets, adjustments to interest income and related tax effects.

	Pro forma Year Ended December 31,	
	2008	2007
	(In thousands, except per share amounts)	
Revenues	$ 94,676	$ 98,340
Income before income taxes	$ 13,159	$ 16,264
Net income	$ 8,105	$ 9,790
Basic net income per common share	$ 0.23	$ 0.30
Diluted net income per common share	$ 0.22	$ 0.28

In November 2007, the Company acquired certain assets and assumed certain obligations of Trade West Systems, LLC (TWS), a Utah-based financial software and technology services provider focused on providing gateway adapters to connect order management systems and trading systems to fixed-income trading venues. The aggregate consideration for the TWS acquisition was $3.1 million, comprised of $3.0 million in cash and $0.1 million of acquisition-related costs. In addition, 64,642 shares of the Company s common stock were issued to the seller. The shares of common stock issued have been characterized as compensation expense and, accordingly, are not included in the purchase price. Stock compensation expense totaling $1.0 million will be recognized over the vesting period. One-half of these shares vested on January 1, 2009 and the balance vest on January 1, 2010. The acquisition of TWS did not have a material impact on the Company s Consolidated Financial Statements. The purchase price allocation is as follows (in thousands):

Account receivable and other assets	$ 27
Amortizable intangibles	1,060
Goodwill	2,177
Accounts payable, accrued expenses and deferred revenue	(114)
Total purchase price	$ 3,150

4. 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 $5,000 or 62/3% of

aggregate indebtedness. MarketAxess Europe Limited, a U.K. subsidiary, is registered as a Multilateral Trading Facility with the Financial Services Authority (FSA) in the U.K. MarketAxess Canada Limited, a Canadian subsidiary, is registered as an Alternative Trading System dealer under the Securities Act of Ontario and is a member of the Investment Industry Regulatory Organization of Canada. MarketAxess Europe Limited and MarketAxess Canada Limited are subject to certain financial resource requirements of the FSA and the Ontario

Table of Contents

MARKETAXESS HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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, 2008:

	MarketAxess Corporation	MarketAxess Europe Limited	MarketAxess Canada Limited
		(In thousands)	
Net capital	$ 25,194	$ 15,965	$ 411
Minimum net capital required	890	2,550	254
Excess net capital	$ 24,304	$ 13,415	$ 157

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.

5. Securities

SFAS 157 defines fair value 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. It also establishes a three-tiered fair value hierarchy that prioritizes inputs to valuation techniques used in fair value calculations. The three levels of inputs are defined as Level 1 (unadjusted quoted prices for identical assets or liabilities in active markets), Level 2 (inputs that are observable in the marketplace other than those inputs classified in Level 1) and Level 3 (inputs that are unobservable in the marketplace). The Company s financial assets and liabilities measured at fair value on a recurring basis consist of its securities available-for-sale portfolio and one foreign currency forward contract. The following table summarizes the valuation of the Company s assets and liabilities measured at fair value at December 31, 2008.

	Level 1	Level 2	Level 3	Total
		(In thousands)		
Securities available-for-sale				
Federal agency issues and municipal securities	$	$ 33,177	$	$ 33,177
Corporate bonds		2,050		2,050
Foreign currency forward position		264		264
	$	$ 35,491	$	$ 35,491

Securities classified within Level 2 were valued using a market approach utilizing prices and other relevant information generated by market transactions involving comparable assets. The foreign currency forward contract is classified within Level 2 as the valuation inputs are based on quoted market prices. The following table is a reconciliation of financial assets measured at fair value using significant unobservable inputs (Level 3) for the year ended December 31, 2008:

Balance as of January 1, 2008	$
Transfers into Level 3	6,770
Redemptions	(6,770)
Balance as of December 31, 2008	$

As of December 31, 2007, the Company had $13.1 million invested in municipal auction rate securities (MARS). Liquidity for these securities is typically provided by an auction process that resets the applicable interest rate at pre-determined 35-day intervals. Auctions for six securities with a par value of $11.2 million began

Table of Contents

MARKETAXESS HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

to fail in February 2008 and, as a result, the Company had been unable to liquidate these holdings. Since February 2008, two securities have been redeemed by the issuer at an aggregate par value of $2.3 million, two securities had successful or partially successful auctions at an aggregate par value of $2.2 million. In addition, in October 2008, we entered into an agreement with the investment manager used to purchase the three remaining MARS, in which the investment manager agreed to buy them at their par value of $6.7 million. This transaction settled during the fourth quarter of 2008, after which time the Company no longer had any investments in MARS.

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
		(In thousands)		
As of December 31, 2008				
Federal agency issues and municipal securities	$ 33,138	$ 55	$ (16)	$ 33,177
Corporate bonds	2,054		(4)	2,050
Total securities available-for-sale	$ 35,192	$ 55	$ (20)	$ 35,227
As of December 31, 2007				
Federal agency issues and municipal securities	$ 51,512	$ 78	$ (11)	$ 51,579

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

	As of December 31,	
	2008	2007
	(In thousands)	
Less than one year	$ 18,702	$ 37,564
Due in 1 2 years	16,525	14,015
Total securities available-for-sale	$ 35,227	$ 51,579

Proceeds from the maturities and sales of securities available-for-sale during 2008, 2007 and 2006 were $46.3 million, $46.2 million and $91.1 million, respectively.

The fair value and continuous duration of gross unrealized losses on securities available-for-sale with unrealized losses as of December 31, 2008 and 2007 were as follows:

	Less than Twelve Months		Twelve Months or More		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
	(In thousands)					
As of December 31, 2008						
Federal agency issues and municipal securities	$ 5,088	$ (10)	$ 2,134	$ (6)	7,222	$ (16)
Corporate bonds			2,050	(4)	2,050	(4)
Total securities available-for-sale	$ 5,088	$ (10)	$ 4,184	$ (10)	$ 9,272	$ (20)
As of December 31, 2007						
Federal agency issues and municipal securities	$	$	$ 4,540	$ (11)	$ 4,540	$ (11)

Table of Contents

MARKETAXESS HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Furniture, Equipment and Leasehold Improvements

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

	As of December 31,	
	2008	2007
	(In thousands)	
Computer hardware and related software	$ 18,015	$ 16,523
Office hardware	3,574	3,317
Furniture and fixtures	1,791	1,834
Leasehold improvements	2,074	2,226
Computer hardware under capital lease	696	
Accumulated depreciation and amortization	(22,781)	(20,969)
Total furniture, equipment and leasehold improvements, net	$ 3,369	$ 2,931

During the years ended December 31, 2008, 2007 and 2006, depreciation and amortization expense was $2.3 million, $2.9 million and $3.0 million, respectively.

7. Software Development Costs

During the years ended December 31, 2008, 2007 and 2006, software development costs totaling $2.4 million, $3.4 million and $4.1 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 on the Consolidated Statements of Operations. During the years ended December 31, 2008, 2007 and 2006, amortization expense was $3.5 million, $4.2 million and $3.7 million, respectively. Software development costs, net, are comprised of the following:

	As of December 31,	
	2008	2007
	(In thousands)	
Software development costs	$ 19,607	$ 17,344
Accumulated amortization	(15,086)	(11,585)
Total software development costs, net	$ 4,521	$ 5,759

8. Goodwill and Intangible Assets

Goodwill and intangible assets principally relate to the allocation of purchase price associated with the acquisitions of Greenline and TWS. The following is a summary of changes in goodwill:

	Year Ended December 31,	
	2008	2007
	(In thousands)	
Balance at beginning of year	$ 2,361	$ 202
Goodwill from Greenline acquisition	29,853	
Goodwill from TWS acquisition	18	2,159
Balance at end of year	$ 32,232	$ 2,361

Table of Contents

MARKETAXESS HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	December 31, 2008			December 31, 2007		
	Cost	Accumulated Amortization	Net Carrying Amount	Cost	Accumulated Amortization	Net Carrying Amount
	(In thousands)					
Technology	$ 4,010	$ (1,110)	$ 2,900	$ 770	$ (26)	$ 744
Customer relationships	3,530	(604)	2,926	220	(4)	216
Non-competition agreements	1,260	(207)	1,053			
Tradenames	590	(155)	435	70	(2)	68
Total	$ 9,390	$ (2,076)	$ 7,314	$ 1,060	$ (32)	$ 1,028

Amortization expense associated with identifiable intangible assets was $2.0 million and $32,000 for the years ended December 31, 2008 and 2007, respectively. During the third quarter of 2008, the Company determined that the technology, customer relationships and tradename intangible assets recognized in connection with the TWS acquisition were impaired. A charge of $0.7 million was recorded to reflect negative current period operating results and reduced revenue expectations for connectivity solutions principally delivered to broker-dealers. Estimated total amortization expense is $1.6 million for 2009, $1.5 million for 2010 and 2011, $1.4 million for 2012 and $0.5 million for 2013.

9. Income Taxes

The provision for income taxes consists of the following:

	Year Ended December 31,		
	2008	2007	2006
	(In thousands)		
Current:			
Federal	$ 124	$	$
State and local	29	81	(75)
Foreign	253	212	89
Total current provision	406	293	14
Deferred:			
Federal	1,883	3,596	1,745

State and local	1,076	1,825	1,138
Foreign	1,570	1,217	286
Total deferred provision	4,529	6,638	3,169
Provision for income taxes	$ 4,935	$ 6,931	$ 3,183

Pre-tax income from U.S. operations was $6.7 million, $13.0 million and $7.5 million for the years ended December 31, 2008, 2007 and 2006, respectively. Pre-tax income from foreign operations was $6.1 million, $4.3 million and $1.1 million for the years ended December 31, 2008, 2007 and 2006, respectively.

Table of Contents

MARKETAXESS HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The difference between the Company s reported provision for income taxes and the amount computed by multiplying pre-tax income taxes by the U.S. federal statutory rate of 35% is as follows:

	Year Ended December 31,		
	2008	2007	2006
	(In thousands)		
U.S. federal tax at statutory rate	$ 4,492	$ 6,037	$ 3,011
State and local taxes net of federal benefit	685	1,212	671
Stock compensation	350	191	457
Change in rate for deferred tax assets	(19)	537	255
Change in valuation allowance	(55)		(450)
Tax-exempt interest income	(655)	(909)	(755)
Tax credits	50	(533)	(498)
Other, net	87	396	492
Provision for income taxes	$ 4,935	$ 6,931	$ 3,183

During 2007 and 2006 the Company reduced the income tax rate used for recording the deferred tax assets, resulting in a decrease in the deferred tax assets and an increase in tax expense of $0.5 million and $0.3 million, respectively. The following is a summary of the Company s net deferred tax assets:

	Year Ended December 31,	
	2008	2007
	(In thousands)	
Deferred tax assets		
U.S net operating loss carryforwards	$ 28,871	$ 28,130
Foreign net operating loss carryforwards	811	2,330
Depreciation	956	1,065
Stock compensation expense	4,490	3,282
Restructuring charges	767	877
Tax credits	3,253	3,236
Other	2,058	1,341
Total deferred tax assets	41,206	40,261
Valuation allowance	(567)	(623)
Net deferred tax assets	40,639	39,638
Deferred tax liabilities		

Capitalized software development costs	(1,925)	(2,431)
Intangible assets	(3,048)	
Deferred tax assets, net	$ 35,666	$ 37,207

As of December 31, 2008, the Company has deferred tax assets associated with stock-based compensation of approximately $4.5 million. There is a risk that the ultimate tax benefit realized upon the exercise of stock options or vesting of restricted stock could be less than the tax benefit previously recognized and in a manner sufficient to exhaust the additional-paid-in-capital pool determined under SFAS 123R. 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, 2008, the additional paid-in-capital pool is approximately $3.2 million.

Table of Contents

MARKETAXESS HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

A summary of the Company s net operating loss and tax credit carryforwards and their expiration dates is as follows:

Year of expiration	Tax Operating Losses	Tax Credits
	(In thousands)	
U.S. carryforwards:		
2012 to 2018	$	$ 193
2019	570	92
2020	2,012	3
2021	23,195	
2022	15,671	122
2023 to 2027	61,802	1,597
Total U.S. carryforwards	103,250	2,007
Credits with no expiration date		400
Foreign carryforwards	1,835	846
Total	$ 105,085	$ 3,253

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.

In 2000 and 2001, 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 are $37.6 million as of December 31, 2008. However, only $5.2 million is deemed utilizable and recognized in the net operating loss carryforward figure. The Company and Greenline experienced ownership changes within the meaning of Section 382 of the Internal Revenue Code in 2007 and 2008, respectively. The Company does not believe that these ownership changes significantly impacts the ability to utilize existing or acquired net operating loss carryforwards. In addition, the Company s net operating loss and tax credit 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.

During the year ended December 31, 2006, the Company reduced the valuation allowance by $0.5 million based on management s current assessment of the factors impacting the valuation allowance previously recorded. Such factors included management s expectation of continuing future profitable operations and judgment concerning future utilization of certain net operating losses that are subject to Section 382 limitations prior to their expiration. In accordance with FIN 48, certain deferred tax assets aggregating $14.1 million were no longer recognized and the related valuation allowance was reversed effective January 1, 2007. As of December 31, 2008, the valuation allowance relates to certain tax credits and foreign tax loss carryforwards that are not expected to be realized. A

summary of the changes in the valuation allowance follows:

	Year Ended December 31,		
	2008	2007	2006
	(In thousands)		
Valuation allowance at beginning of year	$ 623	$ 14,768	$ 15,218
Increase (decrease) to valuation allowance attributable to:			
Net operating losses	156	(14,105)	(330)
Temporary differences	(212)	(40)	97
Tax credits			(217)
Valuation allowance at end of year	$ 567	$ 623	$ 14,768

Table of Contents

MARKETAXESS HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company or one of its subsidiaries files U.S. federal, state and foreign income tax returns. All U.S. federal, state and U.K. income tax returns have not been subject to audit, with the exception of New York city and state (through 2003) and Connecticut state (through 2003) tax returns. The Company s New York state franchise tax returns for 2004 through 2006 are currently under examination. The Company cannot estimate when the examination will conclude. An examination of the New York state income tax returns for 2000 through 2003 concluded in 2008 resulting in a net payment by the Company of $0.1 million. During 2007, an examination of the New York City tax returns for 2001 to 2003 concluded with no adjustments. In addition, an examination of the Company s Connecticut income tax returns for 2003 and 2004 concluded in 2007 resulting in a payment of taxes and interest aggregating $0.1 million.

As a result of the implementation of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109, (FIN 48) effective January 1, 2007, the Company recognized an increase in deferred tax assets of $3.0 million related to previously unrecognized tax benefits, which was accounted for as an increase to additional paid-in capital of $0.3 million and an increase in accrued expenses of $2.7 million. If recognized, this entire amount would impact the effective tax rate. A reconciliation of the unrecognized tax benefits is as follows (in thousands):

	Year Ended December 31,	
	2008	2007
	(In thousands)	
Balance at beginning of year	$ 2,685	$ 2,685
Additions for tax positions of prior years		88
Reductions of tax positions of prior years		(7)
Settlements		(81)
Balance at end of year	$ 2,685	$ 2,685

The Company recognizes interest and penalties related to unrecognized tax benefits in general and administrative expenses in the Consolidated Statements of Operations. As of the adoption date of FIN 48, accrued interest and penalties associated with any unrecognized tax benefits were zero. Interest expense recognized for the years ended December 31, 2008 and 2007 was zero and $30,000, respectively.

10. Related Parties

The Company generates commissions, technology products and services revenues, information and user access fees, investment income and other income and related accounts receivable balances from Stockholder Broker-Dealer Clients or their affiliates. In addition, a Stockholder Broker-Dealer Client acts in an investment advisory, custodial and cash management capacity for the Company. The Company incurs investment advisory and bank fees in connection with this arrangement. The Company also maintained an account with a Stockholder Broker-Dealer Client in connection with its share repurchase program. 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,	
	2008	2007
	(In thousands)	
Cash and cash equivalents	$ 106,649	$ 71,598
Securities and cash provided as collateral	3,816	3,955
Accounts receivable	1,930	6,290
Accounts payable	11	177

Table of Contents

MARKETAXESS HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Year Ended December 31,		
	2008	2007	2006
	(In thousands)		
Commissions	$ 12,466	$ 31,442	$ 35,626
Technology products and services	33		
Information and user access fees	276	798	1,177
Investment income	1,165	2,062	1,007
Other income	169	452	510
General and administrative	57	207	64

As of December 31, 2008 and 2007, the Company had loans and interest receivable due from the Chief Executive Officer of $1.0 million and $1.2 million, respectively, which are described in more detail in Footnote 11, Stockholders Equity. The accrued interest on the loans is recorded in accounts receivable and the principal amount is recorded as a receivable for common stock subscribed in stockholders equity on the Consolidated Statements of Financial Condition. During 2008 and 2007, principal and interest payments aggregating $0.3 million and $0.3 million, respectively, were received.

11. Stockholders Equity

Common Stock

As of December 31, 2008 and 2007, 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. During 2007 and 2006, a total of 539,725 shares and 1,275,951 shares, respectively, of non-voting common stock were converted to voting common stock.

In October 2006, the Board of Directors of the Company authorized a share repurchase program for up to $40.0 million of common stock. Shares repurchased under the program are held in treasury for future use. During 2008, 2007 and 2006, a total of 221,406 shares, 2,452,214 shares and 190,500 shares were repurchased at a cost of $2.8 million, $34.6 million and $2.7 million, respectively. The share repurchase program was completed in January 2008. A total of 2,864,120 shares were repurchased at an aggregate cost of $40.0 million over the life of the repurchase program.

Common Stock Subscribed

In 2001, the Company awarded 289,581 shares to the Company s Chief Executive Officer at $3.60 per share, which vested over a three-year period. The common stock subscribed was issued in 2001 in exchange for four eleven-year promissory notes that bear interest at the applicable federal rate and are collateralized by the subscribed shares.

Warrants

In April 2000, the Board of Directors initiated a warrant program that commenced on February 1, 2001. Under this program, the Company reserved for issuance 5,000,002 shares of common stock. The warrants were issued to holders of Series A, C, E and I redeemable convertible preferred stock (the Warrant Holders). The Warrant Holders were entitled to purchase shares of common stock from the Company at an exercise price of $.003. The warrants were issued to the Warrant Holders at the time that they made an equity investment in the Company. Allocations were based on each broker-dealer client s respective commissions as a percentage of the total

Table of Contents

MARKETAXESS HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

commissions from the six participating Warrant Holders, calculated on a quarterly basis. The final share allocations under the warrant program occurred on March 1, 2004. Shares allocated under the warrant program were expensed on a quarterly basis at fair market value in accordance with SFAS 123.

During the year ended December 31, 2006, two Stockholder Broker-Dealer Clients converted 1,295,004 warrants into 1,294,849 shares of common stock through non-cash exercises. During the year ended December 31, 2007, two Stockholder Broker-Dealer Clients converted 2,379,200 warrants into 2,378,764 shares of common stock through non-cash exercises. There are no warrants outstanding as of December 31, 2008. The exercise of warrants during 2007 and prior years resulted in an unrecognized deferred tax asset of $18.3 million that will be recorded as an increase to additional paid-in-capital once the tax benefit serves to reduce taxes payable in future years.

Series B Preferred Stock and Warrants

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

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

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

The shares of Series B Preferred Stock are convertible at any time by the holders thereof at a conversion price of $10.00 per share, subject to anti-dilution adjustments in the event of a stock split, stock dividend, reverse stock split or similar transaction. The Series B Preferred Stock will be automatically converted into shares of common stock at the then-applicable conversion price if at any time after June 3, 2009 (the first anniversary of the original issuance of the Series B Preferred Stock), the closing price of the common stock is at least $17.50 on each trading day for a period of 65 consecutive trading days.

The Series B Preferred Stock includes a dividend right whereby, upon the declaration or payment of a dividend or distribution on the common stock, a dividend or distribution must also be declared or paid on the Series B

Table of Contents

MARKETAXESS HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Preferred Stock based on the number of shares of common stock into which such shares of Series B Preferred Stock would be convertible at the time. The holders of the Series B Preferred Stock also have voting rights equal to the aggregate number of shares of common stock issuable upon conversion of such holders shares of Series B Preferred Stock.

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

The Series B Preferred Stock does not contain an unconditional obligation requiring the Company to redeem the shares at a specified date or upon the occurrence of an event certain. While liability classification does not apply, there are certain liquidation scenarios not solely within the Company s control. Therefore, the portion of the net proceeds attributable to the Series B Preferred Stock is not classified as permanent equity. The Series B Preferred Stock is not being accreted to its redemption value since the occurrence of a redemption event is not considered probable.

Stockholder Rights Agreement

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

12. Stock-Based Compensation Plans

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. On June 7, 2006, stockholder approval was obtained for an amendment and restatement of the 2004 Stock Incentive Plan to, among other things, increase the number of shares authorized for issuance under the plan from 3,084,802 to 9,754,802 shares. As of December 31, 2008, there were 5,661,605 shares available for grant under the stock incentive plans.

Table of Contents

MARKETAXESS HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Total stock-based compensation expense was as follows:

	Year Ended December 31,		
	2008	2007	2006
	(In thousands)		
Employee:			
Stock options	$ 2,832	$ 3,045	$ 3,737
Restricted stock	3,757	2,103	2,140
	6,589	5,148	5,877
Non-employee directors and consultants:			
Stock options	139	153	277
Restricted stock	333	333	278
	472	486	555
Total stock-based compensation	$ 7,061	$ 5,634	$ 6,432

The Company records stock-based compensation expense for employees in employee compensation and benefits and for non-employee directors and consultants 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-year period, with one-third vesting after one year from the grant date and the remaining two-thirds vesting on an equal monthly basis over the remaining two-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 closed-form model. The Company believes that the use of the Black-Scholes model meets the fair value measurement objectives of SFAS 123R and reflects all substantive characteristics of the instruments being valued. 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 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 years ended December 31, 2008, 2007 and 2006:

	2008	2007	2006
Weighted-average expected life (years)	6.1	5.0	4.6
Weighted-average risk-free interest rate	3.1%	4.7%	4.7%
Weighted-average expected volatility	37.6%	44.6%	41.8%
Weighted-average fair value per option granted	$ 4.51	$ 6.02	$ 4.45

Table of Contents

MARKETAXESS HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table reports stock option activity during the three years ended December 31, 2008 and the intrinsic value as of December 31, 2008:

	Number of Shares	Weighted-Average Exercise Price	Remaining Contractual Term	Intrinsic Value (In thousands)
Outstanding at December 31, 2005	5,168,807	$ 7.56		
Granted	2,297,150	$ 10.87		
Canceled	(983,981)	$ 10.98		
Exercised	(768,116)	$ 4.94		
Outstanding at December 31, 2006	5,713,860	$ 8.65		
Granted	638,500	$ 13.26		
Canceled	(550,947)	$ 11.55		
Exercised	(774,521)	$ 7.76		
Outstanding at December 31, 2007	5,026,892	$ 9.05		
Granted	851,620	$ 10.77		
Canceled	(516,408)	$ 11.60		
Exercised	(74,929)	$ 2.93		$ 303
Outstanding at December 31, 2008	5,287,175	$ 9.17	6.3	$ 8,809
Exercisable at December 31, 2008	3,880,811	$ 8.47	5.5	$ 8,809

The intrinsic value is the amount by which the closing price of the Company s common stock on December 31, 2008 of $8.16 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, 2008, there was $5.3 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 1.4 years.

Restricted Stock

Shares of restricted stock generally vest over a period of three years. Certain grants vest after five years. Had certain performance criteria been met by the Company there were provisions that allowed for accelerated vesting over a shorter term. However, the performance criteria were not met. Compensation expense is measured at the grant date and recognized ratably over the vesting period. The Company considers the likelihood of meeting the performance criteria in determining the amount to expense on a periodic basis.

Table of Contents

MARKETAXESS HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table reports restricted stock activity during the three years ended December 31, 2008:

	Number of Restricted Shares	Weighted-Average Grant Date Fair Value
Outstanding at December 31, 2005	189,000	$ 14.86
Granted	869,000	
Canceled	(102,497)	
Vested	(74,909)	
Outstanding at December 31, 2006	880,594	$ 12.29
Granted	96,642	
Canceled	(54,498)	
Vested	(215,735)	
Outstanding at December 31, 2007	707,003	$ 12.69
Granted	151,915	
Canceled	(6,967)	
Vested	(203,957)	
Outstanding at December 31, 2008	647,994	$ 12.14

As of December 31, 2008, there was $5.3 million of total unrecognized compensation expense related to non-vested restricted stock. That cost is expected to be recognized over a weighted-average period of 1.5 years.

Performance Shares

During 2008, the Company granted performance share awards to certain senior managers with a cumulative target pay-out of 177,680 shares of common stock. The fair value of these awards on the grant date was $10.93 per share. Each performance share award would vest or be 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 for the 2008 calendar year performance period. For each performance share earned, a participant would be awarded an equal number of shares of restricted stock. Any restricted stock awarded to a participant would vest and cease to be restricted stock in equal 50% installments on each of the second and third anniversaries of the date of grant of the applicable performance share award. The Company failed to meet the pre-tax operating income per share target for 2008 and, accordingly, all of the performance share awards were forfeited.

Table of Contents

MARKETAXESS HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. Commitments and Contingencies

The Company leases office space and equipment under non-cancelable lease agreements expiring at various dates through 2019. Office space leases are subject to escalation based on certain costs incurred by the landlord. Minimum rental commitments under such operating and capital leases, net of sublease income, are as follows:

Year Ending December 31,	Operating Leases	Capital Lease
	(In thousands)	
2009	$ 2,270	$ 168
2010	1,099	168
2011	676	168
2012	620	168
2013	627	152
2014 and thereafter	2,215	
Minimum lease payments	7,507	824
Less amount representing interest		155
	$ 7,507	$ 669

The rental expense for the years ended December 31, 2008, 2007 and 2006 was $2.4 million, $2.2 million and $2.5 million, respectively, which 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, and sublease income.

The Company has entered into a sublease agreement on one of its leased properties through the April 2011 lease termination date. A loss on the sublease was recorded in 2001. The sublease loss accrual at December 31, 2008 and 2007 was $0.5 million and $0.7 million, respectively. In May 2008, the Company assigned the lease agreement on another leased property to a third party. The Company is contingently liable should the assignee default on future lease obligations through the November 2016 lease termination date. The aggregate amount of future lease obligations under these two arrangements is $5.0 million as of December 31, 2008.

The Company is contingently obligated for standby letters of credit that were issued to landlords for office space. The Company uses a U.S. government obligation as collateral for these standby letters of credit. This collateral is included with securities and cash provided as collateral in the Consolidated Statements of Financial Condition and had a fair market value as of December 31, 2008 and 2007 of $3.3 million.

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

principal basis, which are cleared and settled by an independent clearing broker. Under a securities clearing agreement with the independent third party, MarketAxess Corporation maintains a collateral deposit with the clearing broker in the form of cash or U.S. government securities. As of December 31, 2008 and 2007, the collateral deposit included in securities and cash provided as collateral in the Consolidated Statements of Financial Condition was $0.5 million. MarketAxess Corporation is exposed to credit risk in the event a counterparty does not fulfill its obligation to complete a transaction. Pursuant to the terms of the securities clearing agreement between MarketAxess Corporation and the independent clearing broker, the clearing broker has the right to charge MarketAxess Corporation for losses resulting from a counterparty s failure to fulfill its contractual obligations. The losses are not capped at a maximum amount and apply to all trades executed through the clearing broker. At December 31, 2008, MarketAxess Corporation had not recorded any liabilities with regard to this right.

In the normal course of business, the Company enters into contracts that contain a variety of representations, warranties and general indemnifications. The Company s maximum exposure under these arrangements is

Table of Contents

MARKETAXESS HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

unknown, as this would involve future claims that may be made against the Company that have not yet occurred. However, based on experience, the Company expects the risk of loss to be remote.

In January 2007, a former employee commenced separate arbitration proceedings against MarketAxess Corporation before FINRA arising out of the expiration of certain vested and unvested stock options and unvested restricted shares issued to him. The former employee subsequently filed a separate statement of claim against MarketAxess Holdings Inc. based on the same statement of claim he had filed against MarketAxess Corporation and the former employee s claims were consolidated by FINRA in a single proceeding. A hearing of the claims brought by the former employee was held in June 2008 and, by an award served on the parties on June 20, 2008, the FINRA arbitration panel denied the claims, totaling approximately $3.6 million, in their entirety. The period to file a motion to vacate the award expired in September 2008 without a filing by the former employee.

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

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

The FINRA hearing, which had been scheduled for early February 2009, has been postponed until a new hearing can be rescheduled. The Company believes that these claims are wholly without merit and has vigorously defended against them. Based on currently available information, the Company believes that the likelihood of a material loss is not probable. Accordingly, no amount has been provided in the accompanying financial statements. However, arbitration is subject to inherent uncertainties and unfavorable rulings could occur.

14. Segment Information

As an electronic multi-dealer platform for the trading of fixed-income securities, the Company s operations constitute a single business segment pursuant to SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information. 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.

Table of Contents

MARKETAXESS HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. Earnings Per Share

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

	Year Ended December 31,		
	2008	2007	2006
	(In thousands, except share and per share amounts)		
Basic EPS			
Net income	$ 7,899	$ 10,320	$ 5,421
Amount allocable to common shareholders	94.3%	100.0%	100.0%
Net income applicable to common stock	$ 7,449	$ 10,320	$ 5,421
Common stock voting	30,245,269	29,572,451	26,764,640
Common stock non-voting	2,585,654	2,720,585	3,798,797
Basic weighted average shares outstanding	32,830,923	32,293,036	30,563,437
Basic earnings per share	$ 0.23	$ 0.32	$ 0.18
Diluted EPS			
Net income	$ 7,899	$ 10,320	$ 5,421
Basic weighted average shares outstanding	32,830,923	32,293,036	30,563,437
Effect of dilutive shares:			
Series B Preferred Stock	1,983,334		
Warrants		579,732	3,026,800
Stock options and restricted stock	923,122	1,580,427	1,487,111
Diluted weighted average shares outstanding	35,737,379	34,453,195	35,077,348
Diluted earnings per share	$ 0.22	$ 0.30	$ 0.15

Stock options, restricted stock and warrants totaling 4,718,939 shares, 719,921 shares and 2,231,578 shares for the years ended December 31, 2008, 2007 and 2006, respectively, were excluded from the computation of diluted earnings per share because their effect would have been antidilutive.

16. Accounting for Foreign Currency Forward Contracts and Hedging Activities

The Company enters into foreign currency forward contracts with a non-controlling stockholder to hedge its exposure to variability in foreign currency cash flows resulting from the net investment in its 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 or three-month period and are used to limit exposure to foreign currency exchange rate fluctuations. Gains or losses on foreign currency forward contracts designated as hedges are included in accumulated other comprehensive loss on the Consolidated Statements of Financial Condition. A summary of the foreign currency forward contract is as follows:

	Year Ended December 31,		
	2008	2007	2006
	(In thousands)		
Notional value	$ 20,041	$ 21,801	$ 17,419
Fair value of notional	19,777	21,890	17,381

Table of Contents

MARKETAXESS HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. Retirement Savings Plan

The Company, through its U.S. and U.K. subsidiaries, offers its employees the opportunity to invest in defined contribution plans. For the years ending December 31, 2008, 2007 and 2006, the Company contributed $0.4 million, $0.6 million and $0.3 million, respectively, to the plans.

18. Customer Concentration

During the years ended December 31, 2008, 2007 and 2006, no single client accounted for more than 10% of total revenue.

Table of Contents

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, 2008. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures are effective to ensure that information required to be disclosed by MarketAxess in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms, and to ensure that information is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

(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, 2008 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

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 2009. 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, 2009). 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. 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, 2008.

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Equity compensation plans approved by stockholders(1)	4,398,286	$ 10.47	5,661,605
	888,889	$ 2.70	

Equity compensation plans not approved by stockholders(2)				
Total	5,287,175	$	9.05	5,661,605

(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 now 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.

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

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

Number	Description
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)
3.6	Form of Certificate of Designation of Series B Preferred Stock of MarketAxess Holdings Inc. (incorporated by reference to Exhibit 3.2 to the registrant s Current Report on Form 8-K dated June 2, 2008)
4.1*	Specimen Common Stock certificate
4.2*	Sixth Amended and Restated Registration Rights Agreement
4.3*	Intentionally omitted
4.4*	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
4.5	Investor Rights Agreement by and among MarketAxess Holdings Inc., a Delaware corporation, TCV VI, L.P., a Delaware limited partnership, and TCV Member Fund, L.P., a Delaware limited partnership, dated June 2, 2008 (incorporated by reference to Exhibit 4.1 to the registrant s Current Report on Form 8-K dated June 2, 2008)
4.6	Form of Warrant issued by MarketAxess Holdings Inc. (incorporated by reference to Exhibit 4.2 to the registrant s Current Report on Form 8-K dated June 2, 2008)
4.7	Stockholders Rights Agreement, dated as of June 2, 2008 by and between MarketAxess Holdings Inc. and American Stock Transfer & Trust Company, LLC, as Rights Agent (incorporated by reference to Exhibit 4.1 to the registrant s Registration Statement on Form 8-A dated June 3, 2008)
10.1(a)	Employment Agreement, dated as of May 3, 2004, by and between MarketAxess Holdings Inc. and Richard M. McVey# (incorporated by reference to Exhibit 10.1 to the registrant s Registration Statement on Form S-1, as amended (Registration No. 333-112718)
10.1(b)**	Amendment to Employment Agreement, dated as of December 19, 2008, by and between MarketAxess Holdings Inc. and Richard M. McVey#
10.2(a)*	Restricted Stock Purchase Agreement, dated as of June 11, 2001, by and between MarketAxess Holdings Inc. and Richard M. McVey#
10.2(b)*	Full Recourse Secured Promissory Note, dated June 11, 2001, by Richard M. McVey in favor of MarketAxess Holdings Inc.#

10.2(c)*	Non-Recourse Secured Promissory Note, dated June 11, 2001, by Richard M. McVey in favor of MarketAxess Holdings Inc.#
10.2(d)*	Stock Pledge Agreement, dated as of June 11, 2001, by and between MarketAxess Holdings Inc. and Richard M. McVey#
10.2(e)*	Restricted Stock Purchase Agreement, dated as of July 1, 2001, by and between MarketAxess Holdings Inc. and Richard M. McVey#
10.2(f)*	Full Recourse Secured Promissory Note, dated July 1, 2001, by Richard M. McVey in favor of MarketAxess Holdings Inc.#

Table of Contents

Number	Description
10.2(g)*	Non-Recourse Secured Promissory Note, dated July 1, 2001, by Richard M. McVey in favor of MarketAxess Holdings Inc.#
10.2(h)*	Stock Pledge Agreement, dated as of July 1, 2001, by and between MarketAxess Holdings Inc. and Richard M. McVey#
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*	Amendment No. 1 to the MarketAxess Holdings Inc. Amended and Restated 2001 Stock Incentive Plan#
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)
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	Restricted Stock Agreement Pursuant to MarketAxess Holdings Inc. 2004 Stock Incentive Plan, dated as of January 31, 2006, by and between MarketAxess Holdings Inc. and Richard M. McVey# (incorporated by reference to Exhibit 10.1 to the registrant s Current Report on Form 8-K dated March 30, 2006)
10.14(a)	Offer Letter dated August 21, 2006 between MarketAxess Holdings Inc. and T. Kelley Millet# (incorporated by reference to Exhibit 10.1 to the registrant s Current Report on Form 8-K dated September 12, 2006)
10.14(b)**	Amendment to Employment Agreement, dated as of December 23, 2008, by and between MarketAxess Holdings Inc. and T. Kelley Millet#
10.15	Stock Option Agreement dated September 13, 2006 between MarketAxess Holdings Inc. and T. Kelley Millet# (incorporated by reference to Exhibit 10.1 to the registrant s Current Report on Form 8-K dated September 13, 2006)
10.16	Restricted Stock Agreement dated September 13, 2006 between MarketAxess Holdings Inc. and T. Kelley Millet# (incorporated by reference to Exhibit 10.2 to the registrant s Current Report on Form 8-K dated September 13, 2006)
10.17	Form of Performance Share Award Agreement for Messrs. McVey and Millet 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)
10.18	

	Form of Performance Share Award Agreement for Employees other than Messrs. McVey and Millet 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)
10.19	Form of Restricted Stock Agreement for Employees other than Messrs. McVey and Millet 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)

Table of Contents

Number	Description
10.20	Form of Incentive Stock Option Agreement for Employees other than Messrs. McVey and Millet 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)
10.21	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)
10.22	Form of Incentive Stock Option Agreement for Mr. Millet pursuant to the MarketAxess Holdings Inc. 2004 Stock Incentive Plan (as amended and restated effective April 28, 2006)# (incorporated by reference to Exhibit 10.6 to the registrant s Current Report on Form 8-K dated January 15, 2008)
10.23	Stock Purchase and Investment Agreement, dated as of March 5, 2008, by and among MarketAxess Technologies Inc., Greenline Financial Technologies, Inc., the Sellers party thereto and the Sellers Representative party thereto (incorporated by reference to Exhibit 10.1 to the registrant s Current Report on Form 8-K dated March 5, 2008)
10.24	Form of MarketAxess Holdings Inc. Restricted Stock Agreement, dated as of March 5, 2008, by and between MarketAxess Holdings Inc. and each of the Sellers party to the Stock Purchase and Investment Agreement listed as Exhibit 10.23 above (incorporated by reference to Exhibit 10.2 to the registrant s Current Report on Form 8-K dated March 5, 2008)
10.25	Escrow Agreement, dated as of March 5, 2008, by and among MarketAxess Technologies Inc., the Sellers Representative and JPMorgan Chase Bank, National Association, as escrow agent (incorporated by reference to Exhibit 10.3 to the registrant s Current Report on Form 8-K dated March 5, 2008)
10.26	Securities Purchase Agreement by and among MarketAxess Holdings Inc., a Delaware corporation, TCV VI, L.P., a Delaware limited partnership, and TCV Member Fund, L.P., a Delaware limited partnership, dated June 2, 2008 (incorporated by reference to Exhibit 10.1 to the registrant s Current Report on Form 8-K dated June 2, 2008)
10.27	Form of Restricted Stock Agreement for Messrs. McVey and Millet 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, 2008)
10.28(a)**	MarketAxess Severance Pay Plan, effective August 1, 2006#
10.28(b)**	Amendment No. 1 to MarketAxess Severance Pay Plan, dated as of December 17, 2008#
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

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: March 3, 2009

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:

Signature	Date	Title(s)
/s/ Richard M. McVey Richard M. McVey	Chief Executive Officer and Chairman of the Board of Directors (principal executive officer)	March 3, 2009
/s/ James N.B. Rucker James N.B. Rucker	Chief Financial Officer (principal financial and accounting officer)	March 3, 2009
/s/ Roger Burkhardt Roger Burkhardt	Director	March 3, 2009
/s/ Stephen P. Casper Stephen P. Casper	Director	March 3, 2009
/s/ David G. Gomach David G. Gomach	Director	March 3, 2009
/s/ Carlos Hernandez Carlos Hernandez	Director	March 3, 2009
/s/ Ronald M. Hersch Ronald M. Hersch	Director	March 3, 2009
/s/ Jerome S. Markowitz	Director	March 3, 2009

Jerome S. Markowitz		
/s/ T. Kelley Millet	President and Director	March 3, 2009
T. Kelley Millet		
/s/ Nicolas S. Rohatyn	Director	March 3, 2009
Nicolas S. Rohatyn		
/s/ John Steinhardt	Director	March 3, 2009
John Steinhardt		
/s/ Robert Trudeau	Director	March 3, 2009
Robert Trudeau		