

MARKETAXESS HOLDINGS INC  
Form 10-Q  
April 26, 2013  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended March 31, 2013

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001-34091

**MARKETAXESS HOLDINGS INC.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of

incorporation or organization)

**299 Park Avenue, 10th Floor New York, New York**  
(Address of principal executive offices)

**(212) 813-6000**

(Registrant's telephone number, including area code)

**52-2230784**  
(IRS Employer

Identification No.)

**10171**  
(Zip Code)

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

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

As of April 25, 2013, the number of shares of the Registrant's voting common stock outstanding was 37,506,244.

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**MARKETAXESS HOLDINGS INC.**

**FORM 10-Q FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2013**

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**Table of Contents****PART I Financial Information****Item 1. Financial Statements****MARKETAXESS HOLDINGS INC.****CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION****(Unaudited)**

	March 31, 2013	As of December 31, 2012
	(In thousands, except share and per share amounts)	
<b>ASSETS</b>		
Cash and cash equivalents	\$ 125,919	\$ 128,908
Securities available-for-sale, at fair value	17,059	51,208
Accounts receivable, net of allowance of \$74 and \$75 as of March 31, 2013 and December 31, 2012, respectively	35,467	31,044
Deferred tax assets, net	4,639	9,442
Goodwill and intangible assets, net of accumulated amortization	72,123	33,134
Furniture, equipment, leasehold improvements and capitalized software, net of accumulated depreciation and amortization	18,743	18,009
Prepaid expenses and other assets	8,931	8,096
<b>Total assets</b>	<b>\$ 282,881</b>	<b>\$ 279,841</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>Liabilities</b>		
Accrued employee compensation	\$ 5,751	\$ 19,916
Deferred revenue	5,398	4,864
Accounts payable, accrued expenses and other liabilities	19,231	12,344
<b>Total liabilities</b>	<b>30,380</b>	<b>37,124</b>
<b>Commitments and Contingencies</b>		
<b>Stockholders equity</b>		
Preferred stock, \$0.001 par value, 4,855,000 shares authorized, no shares issued and outstanding as of March 31, 2013 and December 31, 2012		
Series A Preferred Stock, \$0.001 par value, 110,000 shares authorized, no shares issued and outstanding as of March 31, 2013 and December 31, 2012		
Common stock voting, \$0.003 par value, 110,000,000 shares authorized, 39,001,403 shares and 38,902,294 shares issued and 37,506,244 shares and 37,407,135 shares outstanding as of March 31, 2013 and December 31, 2012, respectively	119	118
Common stock non-voting, \$0.003 par value, 10,000,000 shares authorized, no shares issued and outstanding as of March 31, 2013 and December 31, 2012		
Additional paid-in capital	283,161	283,609
Treasury stock - Common stock voting, at cost, 1,495,159 shares as of March 31, 2013 and December 31, 2012	(32,273)	(32,273)
Retained earnings (deficit)	4,977	(5,644)
Accumulated other comprehensive loss	(3,483)	(3,093)
<b>Total stockholders equity</b>	<b>252,501</b>	<b>242,717</b>

<b>Total liabilities and stockholders equity</b>	\$ 282,881	\$ 279,841
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The accompanying notes are an integral part of these consolidated financial statements.

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

	<b>Three Months Ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
	<b>(In thousands, except per share amounts)</b>	
<b>Revenues</b>		
Commissions	\$ 47,186	\$ 44,902
Technology products and services	3,139	2,908
Information and post-trade services	3,703	1,871
Investment income	132	303
Other	1,397	751
<b>Total revenues</b>	<b>55,557</b>	<b>50,735</b>
<b>Expenses</b>		
Employee compensation and benefits	16,353	15,841
Depreciation and amortization	2,569	1,854
Technology and communications	3,191	2,955
Professional and consulting fees	4,601	3,024
Occupancy	932	759
Marketing and advertising	985	1,447
General and administrative	2,613	2,107
<b>Total expenses</b>	<b>31,244</b>	<b>27,987</b>
<b>Income before income taxes</b>	<b>24,313</b>	<b>22,748</b>
<b>Provision for income taxes</b>	<b>8,987</b>	<b>9,255</b>
<b>Net income</b>	<b>\$ 15,326</b>	<b>\$ 13,493</b>
Net income per common share		
Basic	\$ 0.42	\$ 0.37
Diluted	\$ 0.41	\$ 0.35
Cash dividends declared per common share	\$ 0.13	\$ 0.11
Weighted average common shares		
Basic	36,774	36,934
Diluted	37,673	38,695

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

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**Table of Contents****MARKETAXESS HOLDINGS INC.****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(Unaudited)**

	<b>Three Months Ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
	<b>(In thousands)</b>	
<b>Net income</b>	\$ 15,326	\$ 13,493
Cumulative translation adjustment and foreign currency exchange hedge, net of tax	116	(132)
Unrealized net loss on securities available-for-sale, net of tax	(506)	(199)
<b>Comprehensive Income</b>	\$ 14,936	\$ 13,162

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

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## MARKETAXESS HOLDINGS INC.

## CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

(Unaudited)

	Common Stock Voting	Additional Paid-In Capital	Treasury Stock - Common Stock Voting	Retained Earnings (Deficit) Earnings	Accumulated Other Comprehen- sive Loss	Total Stockholders Equity
	(In thousands)					
Balance at December 31, 2012	\$ 118	\$ 283,609	\$ (32,273)	\$ (5,644)	\$ (3,093)	\$ 242,717
Net income				15,326		15,326
Cumulative translation adjustment and foreign currency exchange hedge, net of tax					116	116
Unrealized net (loss) on securities available-for-sale, net of tax					(506)	(506)
Stock-based compensation		1,997				1,997
Exercise of stock options	1	629				630
Withholding tax payments on restricted stock vesting and stock option exercises		(5,001)				(5,001)
Excess tax benefits from stock-based compensation		1,927				1,927
Cash dividend on common stock				(4,705)		(4,705)
Balance at March 31, 2013	\$ 119	\$ 283,161	\$ (32,273)	\$ 4,977	\$ (3,483)	\$ 252,501

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



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

	<b>Three Months Ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
	<b>(In thousands)</b>	
<b>Cash flows from operating activities</b>		
Net income	\$ 15,326	\$ 13,493
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,569	1,854
Stock-based compensation expense	1,997	1,962
Deferred taxes	2,764	2,623
Provision for bad debts	40	354
Other	(307)	
Changes in operating assets and liabilities		
(Increase) decrease in accounts receivable	(1,136)	2,777
Decrease in prepaid expenses and other assets	76	1,665
(Decrease) in accrued employee compensation	(14,969)	(13,608)
(Decrease) in deferred revenue	(1,041)	(97)
Increase in accounts payable, accrued expenses and other liabilities	4,960	2,351
<b>Net cash provided by operating activities</b>	<b>10,279</b>	<b>13,374</b>
<b>Cash flows from investing activities</b>		
Acquisition of business, net of cash acquired	(37,118)	
Securities available-for-sale:		
Proceeds from sales	30,900	13,577
Proceeds from maturities	2,770	7,962
Purchases		(3,714)
Purchases of furniture, equipment and leasehold improvements	(794)	(607)
Capitalization of software development costs	(1,366)	(1,298)
Other	64	(28)
<b>Net cash (used in) provided by investing activities</b>	<b>(5,544)</b>	<b>15,892</b>
<b>Cash flows from financing activities</b>		
Cash dividend on common stock	(5,405)	(4,201)
Exercise of stock options	630	326
Withholding tax payments on restricted stock vesting and stock option exercises	(5,001)	(5,818)
Excess tax benefits from stock-based compensation	1,927	2,163
Repurchase of common stock		(71,116)
Other	(78)	(72)
<b>Net cash used in financing activities</b>	<b>(7,927)</b>	<b>(78,718)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>203</b>	<b>(359)</b>
<b>Cash and cash equivalents</b>		
Net decrease for the period	(2,989)	(49,811)
Beginning of year	128,908	169,620

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<b>End of period</b>	\$ 125,919	\$ 119,809
<b>Supplemental cash flow information</b>		
<b>Cash paid during the period:</b>		
Cash paid for income taxes	\$ 829	\$ 988
<b>Non-cash investing and financing activity:</b>		
Conversion of common stock non-voting to common stock voting	\$	\$ 15,880
Liabilities assumed in connection with the Xtrakter acquisition:		
Fair value of assets acquired	\$ 44,486	
Cash paid for the capital stock	(37,118)	
<b>Liabilities assumed</b>	\$ 7,368	

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

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**MARKETAXESS HOLDINGS INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Unaudited**

**1. Organization and Principal Business Activity**

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

**2. Significant Accounting Policies**

***Basis of Presentation***

The consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany transactions and balances have been eliminated. These consolidated financial statements are unaudited and should be read in conjunction with the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012. The consolidated financial information as of December 31, 2012 has been derived from audited financial statements not included herein.

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

***Cash and Cash Equivalents***

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

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

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

The Company assesses whether an other-than-temporary impairment loss on the investments has occurred due to declines in fair value or other market conditions. The portion of an other-than-temporary impairment related to credit loss is recorded as a charge in the Consolidated Statements of Operations. The remainder is recognized in accumulated other comprehensive loss if the Company does not intend to sell the security and it is more likely than not that the Company will not be required to sell the security prior to recovery. No charges for other-than-temporary losses were recorded during the three months ended March 31, 2013 and 2012.



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### ***Fair Value Financial Instruments***

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

### ***Allowance for Doubtful Accounts***

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

### ***Depreciation and Amortization***

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

### ***Software Development Costs***

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

### ***Cash Provided as Collateral***

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

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

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

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

### ***Revenue Recognition***

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



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

*Technology products and services.* The Company generates revenues from technology software licenses, maintenance and support services (referred to as post-contract technical support or PCS) and professional consulting services. Revenue is generally recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable and collection is considered probable. The Company generally sells software licenses and PCS together as part of multiple-element arrangements. The Company also enters into contracts for technology integration consulting services unrelated to any software product.

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

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

Revenues from contracts for technology integration consulting services are recognized on the percentage-of-completion method. Percentage-of-completion accounting involves calculating the percentage of 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 March 31, 2013 and 2012. Revenues recognized in excess of billings are recorded as unbilled services within other assets. Billings in excess of revenues recognized are recorded as deferred revenues until revenue recognition criteria are met.

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

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

***Stock-Based Compensation***

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

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

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

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

An impairment review of goodwill is performed on an annual basis and more frequently if circumstances change. Intangible assets with definite lives, including purchased technologies, customer relationships and other intangible assets, are amortized on a straight-line basis over their estimated useful lives, ranging from three to fifteen years. Intangible assets are assessed for impairment when events or circumstances indicate the existence of a possible impairment.

***Earnings Per Share***

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

***Use of Estimates***

The preparation of financial statements in conformity with 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 2012, the Financial Accounting Standards Board issued new guidance related to the Statement of Comprehensive Income. Reclassification adjustments out of accumulated other comprehensive income are required on the face of the Consolidated Statement of Operations. This accounting standard is effective for fiscal years beginning on or after December 15, 2012. The Company adopted the new guidance effective January 1, 2013 and there was no impact on the Consolidated Financial Statements.

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

MarketAxess Corporation, a U.S. subsidiary, is a registered broker-dealer with the SEC and is a member of the Financial Industry Regulatory Authority ( FINRA ). MarketAxess Corporation claims exemption from SEC Rule 15c3-3, as it does not hold customer securities or funds on account, as defined. Pursuant to the Uniform Net Capital Rule under the Securities Exchange Act of 1934, MarketAxess Corporation is required to maintain minimum net capital, as defined, equal to the greater of \$100,000 or 6 2/3% of aggregate indebtedness. MarketAxess Europe Limited, a U.K. subsidiary, is registered as a Multilateral Trading Facility dealer with the Financial Conduct Authority (formerly the Financial Services Authority) ( FCA ) 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 FCA and the Ontario Securities Commission, respectively. The following table sets forth the capital requirements, as defined, that the Company's subsidiaries were required to maintain as of March 31, 2013:





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	MarketAxess Corporation	MarketAxess Europe Limited (In thousands)	MarketAxess Canada Limited
Net capital	\$ 69,812	\$ 16,334	\$ 478
Minimum net capital required	1,585	2,753	270
Excess net capital	\$ 68,227	\$ 13,581	\$ 208

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.

**4. Fair Value Measurements**

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

	Level 1	Level 2 (In thousands)	Level 3	Total
<b>As of March 31, 2013</b>				
Money market funds	\$ 99,801	\$	\$	\$ 99,801
Securities available-for-sale:				
U.S. government obligations				
Municipal securities		14,934		14,934
Corporate bonds		2,125		2,125
Foreign currency forward position		(251)		(251)
	\$ 99,801	\$ 16,808	\$	\$ 116,609
<b>As of December 31, 2012</b>				
Money market funds	\$ 83,519	\$	\$	\$ 83,519
Securities available-for-sale:				
U.S. government obligations		31,104		31,104
Municipal securities		17,947		17,947
Corporate bonds		2,157		2,157
Foreign currency forward and option contracts		15		15
	\$ 83,519	\$ 51,223	\$	\$ 134,742

Securities classified within Level 2 were valued using a market approach utilizing prices and other relevant information generated by market transactions involving comparable assets. The foreign currency forward contract is classified within Level 2 as the valuation inputs are based on quoted market prices. There were no financial assets classified within Level 3 during 2013 and 2012.

The Company enters into foreign currency forward contracts to hedge the exposure to variability in foreign currency cash flows resulting from the net investment in the Company's U.K. subsidiaries. The Company assesses each foreign currency forward contract to ensure that it is highly effective at reducing the exposure being hedged. The Company designates each foreign currency forward contract as a hedge, assesses the risk management objective and strategy, including identification of the hedging instrument, the hedged item and the risk exposure and how effectiveness is to be assessed prospectively and retrospectively. These hedges are for a one-month period and are used to limit exposure to foreign currency exchange rate fluctuations. The gross and net fair value liability as of March 31, 2013 and December 31, 2012 is included in accounts payable in the Consolidated Statements of Financial Condition. Gains or losses on foreign currency forward contracts designated as hedges are included in accumulated other comprehensive loss in the Consolidated Statements of Financial Condition.



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A summary of the foreign currency forward contract is as follows:

	March 31, 2013	As of December 31, 2012
	(In thousands)	
Notional value	\$ 26,235	\$ 15,792
Fair value of notional	26,486	15,809
<b>Gross and net fair value (liability)</b>	<b>\$ (251)</b>	<b>\$ (17)</b>

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

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
	(In thousands)			
<b>As of March 31, 2013</b>				
U.S. government obligations	\$	\$	\$	\$
Municipal securities	14,915	19		14,934
Corporate bonds	2,115	10		2,125
<b>Total securities available-for-sale</b>	<b>\$ 17,030</b>	<b>\$ 29</b>	<b>\$</b>	<b>\$ 17,059</b>
<b>As of December 31, 2012</b>				
U.S. government obligations	\$ 30,255	\$ 849	\$	\$ 31,104
Municipal securities	17,941	10	(4)	17,947
Corporate bonds	2,159		(2)	2,157
<b>Total securities available-for-sale</b>	<b>\$ 50,355</b>	<b>\$ 859</b>	<b>\$ (6)</b>	<b>\$ 51,208</b>

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

	March 31, 2013	As of December 31, 2012
	(In thousands)	
Less than one year	\$ 9,695	\$ 10,870
Due in 1 - 5 years	7,364	40,338
<b>Total securities available-for-sale</b>	<b>\$ 17,059</b>	<b>\$ 51,208</b>

Proceeds from the sales and maturities of securities available-for-sale during the three months ended March 31, 2013 and 2012 were \$33.7 million and \$21.5 million, respectively.

There were no unrealized losses on securities available-for-sale as of March 31, 2013. The following table provides fair values and unrealized losses on securities available-for-sale and by the aging of the securities' continuous unrealized loss position as of December 31, 2012:

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	Less than Twelve Months		Twelve Months or More		Total	
	Estimated	Gross	Estimated	Gross	Estimated	Gross
	fair	unrealized	fair	unrealized	fair	unrealized
	value	losses	value	losses	value	losses
	(In thousands)					
<b>As of December 31, 2012</b>						
U.S. government obligations	\$	\$	\$	\$	\$	\$
Municipal securities	2,780	(4)			2,780	(4)
Corporate bonds	2,157	(2)			2,157	(2)
Total securities available-for-sale	\$ 4,937	\$ (6)	\$	\$	\$ 4,937	\$ (6)

**5. Acquisition**

On February 28, 2013, the Company acquired all of the outstanding shares of Xtrakter Limited from Euroclear S.A./N.V. Xtrakter is a U.K.-based provider of trade matching, regulatory transaction reporting and market and reference data across a range of fixed-income products. The acquisition of Xtrakter provides the Company with an expanded set of technology solutions ahead of incoming pre- and post-trade transparency mandates from the Markets in Financial Instruments Directive II in Europe. The aggregate purchase price was \$37.1 million in cash, net of acquired cash, and is subject to a post-closing adjustment based on the net working capital of Xtrakter on the closing date. During the three months ended March 31, 2013, transaction costs such as legal, regulatory, accounting, tax, valuation and other professional services were \$1.4 million.

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 valuation for the acquired intangible assets, income tax liabilities and post-closing working capital adjustment. The preliminary purchase price allocation is as follows (in thousands):

Purchase price	\$ 45,974
Less: acquired cash	(8,856)
Purchase price, net of acquired cash	37,118
Accounts receivable	3,327
Intangible assets	13,255
Other assets	1,729
Deferred tax liability, net	(2,284)
Accounts payable, accrued expenses and deferred revenue	(5,084)
Goodwill	\$ 26,175

The acquired intangible assets are as follows (in thousands, except for useful lives):

	Costs	Useful Lives
Customer relationships	\$ 5,455	10-15 years
Internally developed software	5,000	3 years
Tradename- indefinite life	1,820	indefinite
Tradename- finite life	300	3 years
Non-compete agreement	380	3 years
Other	300	indefinite

Total	\$ 13,255
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The identifiable intangible assets and goodwill are not deductible for tax purposes.

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Since the date of the acquisition, Xtrakter-related revenue and net income of \$1.9 million and \$0.1 million, respectively, have been included in the Company's Consolidated Statements of Operations. The following unaudited pro forma consolidated financial information reflects the results of operations of the Company for the three months ended March 31, 2013 and 2012, as if the acquisition of Xtrakter had occurred as of the beginning of each year presented, after giving effect to certain purchase accounting adjustments. These pro forma results are not necessarily indicative of what the Company's operating results would have been had the acquisition actually taken place at the beginning of each period presented. The pro forma financial information includes the amortization charges from acquired intangible assets, adjustments to interest income to reflect the cash purchase price and related tax effects.

	<b>Pro forma</b>	
	<b>Three Months Ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
	<b>(In thousands, except per share amounts)</b>	
Revenues	\$ 59,481	\$ 57,177
Income before income taxes	\$ 24,418	\$ 22,824
Net income	\$ 15,395	\$ 13,529
Basic net income per common share	\$ 0.42	\$ 0.37
Diluted net income per common share	\$ 0.41	\$ 0.35

**6. Goodwill and Intangible Assets**

The following is a summary of changes in goodwill and intangible assets with indefinite lives for the three months ended March 31, 2013 (in thousands):

Balance at beginning of period	\$ 31,785
Goodwill from Xtrakter acquisition	26,175
Intangible assets with indefinite lives from Xtrakter acquisition	2,120
Balance at end of period	\$ 60,080

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

	<b>March 31, 2013</b>			<b>December 31, 2012</b>		
	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net Carrying Amount</b>	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net Carrying Amount</b>
	<b>(In thousands)</b>					
Technology	\$ 9,010	\$ (4,114)	\$ 4,896	\$ 4,010	\$ (3,892)	\$ 118
Customer relationships	8,985	(2,499)	6,486	3,530	(2,364)	1,166
Non-competition agreements	1,640	(1,271)	369	1,260	(1,214)	46
Tradenames	890	(598)	292	590	(570)	20
<b>Total</b>	<b>\$ 20,525</b>	<b>\$ (8,482)</b>	<b>\$ 12,043</b>	<b>\$ 9,390</b>	<b>\$ (8,040)</b>	<b>\$ 1,350</b>

Amortization expense associated with identifiable intangible assets was \$0.4 million for both the three months ended March 31, 2013 and 2012. Estimated total amortization expense is \$1.9 million for 2013, \$2.1 million for 2014, \$2.1 million for 2015, \$1.8 million for 2016 and \$0.7 million for 2017.

**Table of Contents****7. Income Taxes**

The provision for income taxes consists of the following:

	<b>Three Months Ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
	<b>(In thousands)</b>	
<b>Current:</b>		
Federal	\$ 3,508	\$ 3,565
State and local	1,079	1,170
Foreign	(128)	(90)
<b>Total current provision</b>	<b>4,459</b>	<b>4,645</b>
<b>Deferred:</b>		
Federal	3,747	3,545
State and local	679	872
Foreign	102	193
<b>Total deferred provision</b>	<b>4,528</b>	<b>4,610</b>
<b>Provision for income taxes</b>	<b>\$ 8,987</b>	<b>\$ 9,255</b>

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

	<b>March 31, 2013</b>	<b>As of December 31, 2012</b>
	<b>(In thousands)</b>	
Deferred tax assets and liabilities	\$ 5,361	\$ 10,169
Valuation allowance	(722)	(727)
<b>Deferred tax assets, net</b>	<b>\$ 4,639</b>	<b>\$ 9,442</b>

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

Effective January 1, 2013, the Company has determined that unremitted earnings of its foreign subsidiaries will be considered indefinitely reinvested outside of the United States. There were no aggregate unremitted earnings as of December 31, 2012 and the impact of the reinvestment decision was immaterial to the income tax provision for the three months ended March 31, 2013.

**8. Stock-Based Compensation Plans**

Stock-based compensation expense for the three months ended March 31, 2013 and 2012 was as follows:

**Three Months Ended March 31,**  
**2013**                      **2012**  
**(In thousands)**



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Employee:		
Restricted stock and performance shares	\$ 1,649	\$ 1,668
Stock options	197	145
	1,846	1,813
Non-employee directors:		
Restricted stock	151	149
Total stock-based compensation	\$ 1,997	\$ 1,962

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

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During the three months ended March 31, 2013, the Company granted to employees a total of 209,501 shares of restricted stock or restricted stock units, performance-based shares with an expected pay-out at target of 42,908 shares of common stock and 51,597 options to purchase shares of common stock. The fair value of the restricted stock and performance-based share awards was based on a weighted-average grant date fair value per share of \$37.68 and \$35.98, respectively. Based on the Black-Scholes option pricing model, the weighted-average fair value for each option granted was \$19.62 per share. As of March 31, 2013, the total unrecognized compensation costs related to non-vested awards was \$18.5 million. That cost is expected to be recognized over a weighted-average period of 2.6 years.

**9. Earnings Per Share**

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

	<b>Three Months Ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
	<b>(In thousands, except per share amounts)</b>	
Net income	\$ 15,326	\$ 13,493
Common stock voting	36,774	35,276
Common stock non-voting		1,658
Basic weighted average shares outstanding	36,774	36,934
Basic earnings per share	\$ 0.42	\$ 0.37
Weighted average shares outstanding	36,774	36,934
Dilutive effect of stock options and restricted stock	899	1,761
Diluted weighted average shares outstanding	37,673	38,695
Diluted earnings per share	\$ 0.41	\$ 0.35

Stock options and restricted stock totaling 482,716 shares and 302,364 shares for the three months ended March 31, 2013 and 2012, respectively were excluded from the computation of diluted earnings per share because their effect would have been antidilutive. The computation of diluted shares can vary among periods due, in part, to the change in the average price of the Company's common stock.

**10. Credit Facility**

On January 14, 2013, the Company entered into a three-year credit agreement ( Credit Agreement ) which provides for revolving loans and letters of credit up to an aggregate of \$50.0 million ( Credit Facility ). Subject to satisfaction of certain specified conditions, the Company is permitted to upsize the Credit Facility by an additional \$50.0 million in total. As of March 31, 2013, there was \$49.9 million of availability under the Credit Facility.

Borrowings under the Credit Facility will bear interest at a rate per annum equal to either of the following, as designated by the Company for each borrowing: (A) the sum of (i) the greatest of (a) the prime rate, as defined, (b) the federal funds effective rate plus 0.50% and (c) one month adjusted LIBOR plus 1.00% plus (ii) 0.50% or (B) the sum of (i) adjusted LIBOR plus (ii) 1.50%. Default interest is 2.00% per annum in excess of the rate otherwise applicable in the case of any overdue principal or any other overdue amount. The Company is also required to pay a commitment fee to the lenders under the Credit Facility in respect of unutilized revolving loan commitments at a rate of 0.30% per annum.

The Company's existing and future domestic subsidiaries (other than any broker-dealer subsidiary) have guaranteed the Company's obligations under the Credit Agreement. Subject to customary exceptions and exclusions, the Credit Facility is collateralized by first priority pledges (subject to permitted liens) of substantially all of the Company's personal property assets and the personal property assets of the Company's domestic subsidiaries that have guaranteed the Credit Facility, including the equity interests of the Company's domestic subsidiaries and the equity interests of certain of the Company's foreign subsidiaries (limited, in the case of the voting equity interests of the foreign subsidiaries, to a pledge of 65% of those equity interests). Each of the Company and the guarantors will also be required to provide mortgages on any real property owned by it.



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The Credit Agreement requires that the Company's consolidated total leverage ratio tested on the last day of each fiscal quarter not exceed 2.5 to 1.0. The Credit Agreement also requires that the Company's consolidated interest coverage ratio tested on the last day of each fiscal quarter not exceed 3.5 to 1.0.

If an event of default occurs, including failure to pay principal or interest due on the loan balance, a voluntary or involuntary proceeding seeking liquidation, change in control of the Company, or one or more judgments against the Company in excess of \$10 million, the lenders would be entitled to accelerate the facility and take various other actions, including all actions permitted to be taken by a secured creditor. If certain bankruptcy events of default occur, the facility will automatically accelerate.

**11. Commitments and Contingencies***Lease Commitments*

The Company leases office space and equipment under non-cancelable lease agreements expiring at various dates through 2022. Office space leases are subject to escalation based on certain costs incurred by the landlord. Minimum rental commitments as of March 31, 2013 under such operating and capital leases were as follows:

	Operating Leases	Capital Leases
	(In thousands)	
Remainder of 2013	\$ 1,387	\$ 238
2014	1,828	42
2015	2,088	
2016	2,019	
2017	2,873	
2018 and thereafter	7,255	
Minimum lease payments	17,450	280
Less amount representing interest		9
	\$ 17,450	\$ 271

Rental expense was \$0.8 million and \$0.7 million for the three months ended March 31, 2013 and 2012, respectively, and is included in occupancy expense in the Consolidated Statements of Operations. Rental expense has been recorded based on the total minimum lease payments after giving effect to rent abatement and concessions, which are being amortized on a straight-line basis over the life of the lease. The Company is contingently obligated for standby letters of credit amounting to \$1.4 million that were issued to landlords for office space.

In 2008, the Company assigned the lease agreement on a leased property to a third party. The Company is contingently liable should the assignee default on future lease obligations through the November 2015 lease termination date. The aggregate amount of future lease obligations under this arrangement was \$0.9 million as of March 31, 2013.

*Employee Matter*

The Company assesses its liabilities and contingencies in connection with outstanding legal proceedings, if any, utilizing the latest information available. For matters where it is probable that the Company will incur a material loss and the amount can be reasonably estimated, the Company would establish an accrual for the loss. Once established, the accrual would be adjusted to reflect any relevant developments. When a loss contingency is not both probable and estimable, the Company does not establish an accrual. On January 2, 2013, a former employee of the Company filed a complaint against the Company with the U.S. Department of Labor alleging retaliatory employment practices in violation of the whistleblower provisions of the Sarbanes-Oxley Act. The relief sought includes, among other things, reinstatement, back pay and compensatory and punitive damages. The Company believes the complaint is without merit and intends to vigorously defend itself against the allegations. The Company filed its response to the complaint on February 26, 2013. Given the preliminary stage and the inherent uncertainty of the potential outcome of such proceedings, the Company cannot estimate the reasonably possible range of loss at this time. Based on the available information, the Company believes that the low end of the reasonably possible range of loss is zero and, accordingly, no loss accrual has been provided in the Company's accompanying financial statements.



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### *Other*

The Company, through two regulated subsidiaries, executes certain bond transactions between and among institutional investor and broker-dealer clients on a riskless principal basis by serving as counterparty to both the buyer and the seller in matching back-to-back trades, which are then settled through a third-party clearing organization. The Company acts as intermediary on a riskless principal basis in these bond transactions by serving as counterparty to the two clients involved. Settlement typically occurs within one to three trading days after the trade date. Cash settlement of the transaction occurs upon receipt or delivery of the underlying instrument that was traded. Under securities clearing agreements with the independent third party, the Company maintains a collateral deposit with the clearing broker in the form of cash. As of March 31, 2013, the amount of the collateral deposit included in prepaid expenses and other assets in the Consolidated Statements of Financial Condition was \$0.9 million. The Company is exposed to credit risk in the event a counterparty does not fulfill its obligation to complete a transaction. Pursuant to the terms of the securities clearing agreements between the Company and the independent clearing broker, the clearing broker has the right to charge the Company for losses resulting from a counterparty's failure to fulfill its contractual obligations. The losses are not capped at a maximum amount and apply to all trades executed through the clearing broker. At March 31, 2013, the Company had not recorded any liabilities with regard to this right.

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

### **12. Customer Concentration**

During both the three months ended March 31, 2013 and 2012, no single client accounted for more than 10% of total revenue. One client accounted for 12.7% and 14.3% of trading volumes during the three months ended March 31, 2013 and 2012, respectively.

### **13. Share Repurchases**

In October 2011, the Board of Directors authorized a share repurchase program for up to \$35.0 million of the Company's common stock. As of March 31, 2013, the Company repurchased 955,342 shares of common stock at a cost of \$29.2 million. No shares were repurchased during the three months ended March 31, 2013. Shares repurchased under the program will be held in treasury for future use.

On February 28, 2012, the Company repurchased 1,821,730 shares of the Company's non-voting common stock from JPMorgan Chase & Co. (JPM) at a cost of \$52.9 million. Shares repurchased from JPM were cancelled by the Company.

### **14. Related Party**

In February 2012, the Company completed a registered underwritten secondary public offering of 3,597,333 shares of common stock held by JPM. The Company did not receive any of the proceeds of the offering. In addition, the Company repurchased 1,821,730 shares of non-voting common stock held by JPM. Immediately following the offering, JPM no longer held shares of common stock in the Company and, accordingly, is not considered a related party. The Company generated commissions, technology products and services revenues, information and user access fees, investment income and other income from JPM totaling \$1.6 million for the two months ended February 28, 2012.

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations****Forward-Looking Statements**

*This report contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements may be identified by words such as expects, intends, anticipates, plans, believes, seeks, estimates, will, or words of similar meaning and include, but are not limited to, statements regarding the outlook for our future business and financial performance. Forward-looking statements are based on management's current expectations and assumptions, which are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. It is routine for our internal projections and expectations to change as the year or each quarter in the year progresses, and therefore it should be clearly understood that the internal projections and beliefs upon which we base our expectations may change prior to the end of each quarter or the year. Although these expectations may change, we are under no obligation to revise or update any forward-looking statements contained in this report. Our company policy is generally to provide our expectations only once per quarter, and not to update that information until the next quarter. Actual future events or results may differ materially from those contained in the projections or forward-looking statements. Factors that could cause or contribute to such differences include those discussed below and elsewhere in this report, particularly in the section captioned Part II, Item 1A, Risk Factors.*

**Executive Overview**

MarketAxess operates a leading electronic trading platform that enables fixed-income market participants to efficiently trade corporate bonds and other types of fixed-income instruments using our patented trading technology. Our over 1,000 active institutional investor clients (firms that executed at least one trade in U.S. or European fixed-income securities through our electronic trading platform between April 2012 and March 2013) include investment advisers, mutual funds, insurance companies, public and private pension funds, bank portfolios, broker-dealers and hedge funds. Our 88 broker-dealer market-maker clients provide liquidity on the platform and include most of the leading broker-dealers in global fixed-income trading. We also execute certain bond transactions between and among institutional investor and broker-dealer clients on a riskless principal basis by serving as counterparty to both the buyer and the seller in matching back-to-back trades, which then settle through a third-party clearing organization. We offer a number of trading-related products and services, including market data to assist clients with trading decisions; connectivity solutions that facilitate straight-through processing; technology services to optimize trading environments; and execution services for exchange-traded fund managers and other clients. We also offer a range of pre- and post-trade services, including trade matching, regulatory transaction reporting and reference data, across a range of fixed-income products.

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

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

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

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

- 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;



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to continue building our existing service offerings so that our electronic trading platform is fully integrated into the workflow of our broker-dealer and institutional investor clients and to continue to add functionality to allow our clients to achieve a fully automated end-to-end straight-through processing solution (automation from trade initiation to settlement);

to add new content and analytical capabilities to Corporate BondTicker in order to improve the value of the information we provide to our clients; and

to continue to supplement our internal growth by entering into strategic alliances, or acquiring businesses or technologies that will enable us to enter new markets, provide new products or services, or otherwise enhance the value of our platform to our clients. On February 28, 2013, we acquired all of the outstanding shares of Xtrakter Limited ( Xtrakter ) from Euroclear S.A./N.V. Xtrakter is a U.K.-based provider of trade matching, regulatory transaction reporting and market and reference data across a range of fixed-income products. The acquisition of Xtrakter provides us with an expanded set of technology solutions ahead of incoming pre- and post-trade transparency mandates from the Markets in Financial Instruments Directive II in Europe.

## **Critical Factors Affecting Our Industry and Our Company**

### ***Economic, Political and Market Factors***

The global fixed-income securities industry is risky and volatile and is directly affected by a number of economic, political and market factors that may result in declining trading volume. These factors could have a material adverse effect on our business, financial condition and results of operations. These factors include, among others, credit market conditions, the current interest rate environment, including the volatility of interest rates and investors' forecasts of future interest rates, economic and political conditions in the United States, Europe and elsewhere, and consolidation or contraction of broker-dealers.

### ***Competitive Landscape***

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

In general, we compete on the basis of a number of key factors, including, among others, the liquidity provided on our platform, the magnitude and frequency of price improvement enabled by our platform and the quality and speed of execution. We believe that our ability to grow volumes and revenues will largely depend on our performance with respect to these factors.

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

### ***Regulatory Environment***

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

Our U.S. subsidiary, MarketAxess Corporation, is a registered broker-dealer with the SEC and is a member of FINRA. Our U.K. subsidiary, MarketAxess Europe Limited, is registered as a multilateral trading facility dealer with the FCA in the U.K. MarketAxess Canada Limited, a Canadian subsidiary, is registered as an Alternative Trading System dealer under the Securities Act of Ontario and is a member of the Investment Industry Regulatory Organization of Canada. Relevant regulations prohibit repayment of borrowings from these subsidiaries or their affiliates, paying cash dividends, making loans to us or our affiliates or otherwise entering into transactions that result in a significant reduction in regulatory net capital or financial resources, without prior notification to or approval from such regulated entity's principal regulator.



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In July 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act ) was signed into law. U.S. financial regulators are in the midst of an intense period of rulemaking that is required to implement the provisions of the Dodd-Frank Act, and market participants will need to make strategic decisions in an environment of regulatory uncertainty. Among the most significant aspects of the derivatives section of the Dodd-Frank Act are mandatory clearing of certain derivatives transactions ( swaps ) through regulated central clearing organizations and mandatory trading of those swaps through either regulated exchanges or swap execution facilities, in each case, subject to certain key exceptions. As with other parts of the Dodd-Frank Act, many of the details of the new regulatory regime relating to swaps are left to the regulators to determine through rulemaking. While the U.S. Commodity Futures Trading Commission and SEC have adopted a number of rules that implement certain aspects of the new regulatory regime regarding the swaps market place, no assurance can be given regarding when, or whether, the remaining rules, including, among others, the rules regarding swap execution facilities and security-based swap execution facilities, will be finalized or implemented. Subject to such rulemaking, we currently expect to establish and operate a swap execution facility and/or a security-based swap execution facility.

The proposed Volcker Rule section of the Dodd-Frank Act bans proprietary trading by banks and their affiliates. The Volcker Rule could adversely affect our bank-affiliated broker-dealer clients ability to make markets in a variety of fixed-income securities, thereby negatively impacting the level of liquidity and pricing available on our trading platform. We cannot predict the extent to which any future regulatory changes may adversely affect our business and operations.

Similar to the U.S., regulatory bodies in Europe and elsewhere are developing new rules for derivatives trading. For example, the European Parliament and the EU Council of Ministers endorsed an agreement in 2012 that will, among other things, require central clearing of standardized OTC derivatives and the reporting of all derivatives (OTC or otherwise) to trade repositories. However, it is not yet clear whether there will be any requirement in the EU to trade standardized derivative contracts on regulated exchanges or trading platforms.

### ***Rapid Technological Changes***

We must continue to enhance and improve our electronic trading platform. The electronic financial services industry is characterized by increasingly complex systems and infrastructures and new business models. Our future success will depend on our ability to enhance our existing products and services, develop and/or license new products and technologies that address the increasingly sophisticated and varied needs of our broker-dealer and institutional investor clients and prospective clients and respond to technological advances and emerging industry standards and practices on a cost-effective and timely basis. We have received 11 patents covering our most significant trading protocols and other aspects of our trading system technology and other additional patents are pending.

### **Trends in Our Business**

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

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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.

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### ***Commission Revenue***

Commissions are generally calculated as a percentage of the notional dollar volume of bonds traded on our platform and vary based on the type, size, yield and maturity of the bond traded. The commission rates are based on a number of factors, including fees charged by inter-dealer brokers in the respective markets, average bid-offer spreads in the products we offer and transaction costs through alternative channels including the telephone. Under our transaction fee plans, bonds that are more actively traded or that have shorter maturities are generally charged lower commissions, while bonds that are less actively traded or that have longer maturities generally command higher commissions.

*U.S. High-Grade Corporate Bond Commissions.* Our U.S. high-grade corporate bond fee plans for fully electronic trades generally incorporate variable transaction fees and distribution fees billed to our broker-dealer clients on a monthly basis. Certain dealers participate in fee programs that do not contain monthly distribution fees and instead incorporate additional per transaction execution fees and minimum monthly fee commitments. Under the fee plans, we electronically add the transaction fee to the spread quoted by the broker-dealer client. The U.S. high-grade transaction fee is generally designated in basis points in yield and, as a result, is subject to fluctuation depending on the duration of the bond traded. The average U.S. high-grade fees per million may vary in the future due to changes in yield and years-to-maturity of bonds traded on our platform.

*Other Credit Commissions.* Other credit includes emerging markets, high-yield, Eurobonds and structured products. Commissions for other credit products generally vary based on the type of the instrument traded using standard fee schedules. Similar to the U.S. high-grade plans, our European fee plans generally incorporate monthly distribution fees as well as variable transaction fees.

*Liquid Products Commissions.* Liquid products includes U.S. agency and European government bonds. Commissions for liquid products generally vary based on the type of the instrument traded using standard fee schedules.

For trades that we execute between and among institutional investor and broker-dealer clients on a riskless principal basis by serving as counterparty to both the buyer and the seller, we earn our commission through the difference in price between the two back-to-back trades.

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

### ***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 include software licenses, maintenance and support services and professional consulting services.

*Information and post-trade services.* We charge information services fees for Corporate BondTicker™ to our broker-dealer clients, institutional investor clients and data-only subscribers. The information services fee is a flat monthly fee, based on the level of service. We also generate information services fees from the sale of bulk data and pricing services. Institutional investor clients trading U.S. high-grade corporate bonds are charged a monthly user access fee for the use of our platform. The fee, billed quarterly, is charged to the client based on the number of the client's users. To encourage institutional investor clients to execute trades on our platform, we reduce these information and user access fees for such clients once minimum quarterly trading volumes are attained. We also generate revenue by providing regulatory transaction reporting and trade matching services to the securities markets.

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

*Other.* Other revenues include fees from telecommunications line charges to broker-dealer clients, initial set-up fees and other miscellaneous revenues.

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### ***Expenses***

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

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

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

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

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

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

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

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

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

### **Critical Accounting Estimates**

This Management's Discussion and Analysis of Financial Condition and Results of Operations discusses our Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States, also referred to as U.S. GAAP. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of income and expenses during the reporting periods. We base our estimates and judgments on historical experience and on various other factors that we believe are reasonable under the circumstances. Actual results may differ from these estimates under varying assumptions or conditions. Note 2 of the Notes to our Consolidated Financial Statements includes a summary of the significant accounting policies and methods used in the preparation of our Consolidated Financial Statements. There were no significant changes to our critical accounting policies and estimates during the three months ended March 31, 2013, as compared to those we disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2012.

### **Segment Results**

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



**Table of Contents****Results of Operations****Three Months Ended March 31, 2013 Compared to Three Months Ended March 31, 2012***Overview*

Total revenues increased by \$4.8 million or 9.5% to \$55.6 million for the three months ended March 31, 2013, from \$50.7 million for the three months ended March 31, 2012. This increase in total revenues was primarily due to an increase in commissions of \$2.3 million, revenue from information and post-trade services of \$1.8 million and other revenue of \$0.6 million. Information and post-trade services revenue generated by Xtrakter totaled \$1.9 million since the February 28, 2013 acquisition date.

Total expenses increased by \$3.3 million or 11.6% to \$31.2 million for the three months ended March 31, 2013, from \$28.0 million for the three months ended March 31, 2012. This increase was primarily due to higher professional and consulting expenses of \$1.6 million, depreciation and amortization of \$0.7 million, employee compensation and benefits of \$0.5 million and general and administrative costs of \$0.5 million. First quarter 2013 expenses included approximately \$1.7 million of Xtrakter operating expenses and an additional \$1.4 million of acquisition-related costs.

Income before taxes increased by \$1.6 million or 6.9% to \$24.3 million for the three months ended March 31, 2013, from \$22.7 million for the three months ended March 31, 2012. Net income was up \$1.8 million or 13.6% to \$15.3 million for the three months ended March 31, 2013, from \$13.5 million for three months ended March 31, 2012.

*Revenues*

Our revenues for the three months ended March 31, 2013 and 2012, and the resulting dollar and percentage changes, were as follows:

	2013		Three Months Ended March 31, 2012		\$ Change	% Change
	\$	% of Revenues	\$	% of Revenues		
	(\$ in thousands)					
Commissions	\$ 47,186	84.9%	\$ 44,902	88.5%	\$ 2,284	5.1%
Technology products and services	3,139	5.7	2,908	5.7	231	7.9
Information and post-trade services	3,703	6.7	1,871	3.7	1,832	97.9
Investment income	132	0.2	303	0.6	(171)	(56.4)
Other	1,397	2.5	751	1.5	646	86.0
<b>Total revenues</b>	<b>\$ 55,557</b>	<b>100.0%</b>	<b>\$ 50,735</b>	<b>100.0%</b>	<b>\$ 4,822</b>	<b>9.5%</b>



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*Commissions.* Our commission revenues for the three months ended March 31, 2013 and 2012, and the resulting dollar and percentage changes, were as follows:

	Three Months Ended March 31,			
	2013	2012	\$ Change	% Change
(\$ in thousands)				
<b>Variable transaction fees</b>				
U.S. high-grade	\$ 19,290	\$ 18,510	\$ 780	4.2%
Other credit	12,365	9,426	2,939	31.2
Liquid products	801	903	(102)	(11.3)
<b>Total variable transaction fees</b>	<b>32,456</b>	<b>28,839</b>	<b>3,617</b>	<b>12.5</b>
<b>Distribution fees</b>				
U.S. high-grade	12,349	13,159	(810)	(6.2)
Other credit	2,351	2,904	(553)	(19.0)
Liquid products	30		30	
<b>Total distribution fees</b>	<b>14,730</b>	<b>16,063</b>	<b>(1,333)</b>	<b>(8.3)</b>
<b>Total commissions</b>	<b>\$ 47,186</b>	<b>\$ 44,902</b>	<b>\$ 2,284</b>	<b>5.1%</b>

*Variable Transaction Fees*

The following table shows the extent to which the increase in commissions for the three months ended March 31, 2013 was attributable to changes in transaction volumes and variable transaction fees per million:

	Change from the Three Months Ended March 31, 2012			
	U.S. High-Grade	Other Credit	Liquid Products	Total
(In thousands)				
Volume increase (decrease)	\$ 550	\$ 1,811	\$ (267)	\$ 2,094
Variable transaction fee per million increase	230	1,128	165	1,523
<b>Total commissions increase (decrease)</b>	<b>\$ 780</b>	<b>\$ 2,939</b>	<b>\$ (102)</b>	<b>\$ 3,617</b>

Our trading volumes for the three months ended March 31, 2013 and 2012 were as follows:

	Three Months Ended March 31,			
	2013	2012	\$ Change	% Change
<b>Trading Volume Data (in millions)</b>				
U.S. high-grade fixed rate	\$ 96,736	\$ 94,997	\$ 1,739	1.8%
U.S. high-grade floating rate	4,509	3,325	1,184	35.6
<b>Total U.S. high-grade</b>	<b>101,245</b>	<b>98,322</b>	<b>2,923</b>	<b>3.0</b>
<b>Other credit</b>	<b>41,767</b>	<b>35,037</b>	<b>6,730</b>	<b>19.2</b>
<b>Liquid products</b>	<b>17,348</b>	<b>24,631</b>	<b>(7,283)</b>	<b>(29.6)</b>

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Total	\$ 160,360	\$ 157,990	\$ 2,370	1.5%
Number of U.S. Trading Days	60	62		
Number of U.K. Trading Days	62	64		

For volume reporting purposes, transactions in foreign currencies are converted to U.S. dollars at average monthly rates. The 3.0% increase in U.S. high-grade volume was principally due to an increase in our estimated market share of total U.S. high-grade corporate bond volume as reported by FINRA TRACE from 11.4% for the three months ended March 31, 2012 to 12.3% for the three months ended March 31, 2013. Estimated FINRA TRACE U.S. high-grade volume decreased by 1.3% to \$825.9 billion for the three months ended March 31, 2013 from \$864.4 billion for the three months ended March 31, 2012. Other credit volumes increased by 19.2% for the three months ended March 31, 2013 compared to the three months ended March 31, 2012 primarily due to higher emerging markets and high-yield bond volumes, partially offset by lower European high-grade volumes. Liquid products volume decreased by 29.6% for the three months ended March 31, 2013 compared to the three months ended March 31, 2012, due to lower U.S. agency volumes. Estimated FINRA TRACE U.S. agency volume decreased by 30.2% for the three months ended March 31, 2013 compared to the three months ended March 31, 2012.

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Our average variable transaction fee per million for the three months ended March 31, 2013 and 2012 was as follows:

<b>Average Variable Transaction Fee Per Million</b>	<b>Three Months Ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
U.S. high-grade - fixed rate	\$ 198	\$ 194
U.S. high-grade - floating rate	21	25
Total U.S. high-grade	191	188
Other credit	296	269
Liquid products	46	37
Total	202	183

The U.S. high-grade average variable transaction fee per million increased from \$188 for the three months ended March 31, 2012 to \$191 for the three months ended March 31, 2013. Other credit average variable transaction fees per million increased from \$269 for the three months ended March 31, 2012 to \$296 for the three months ended March 31, 2013, primarily due to a larger percentage of volume in products that carry higher fees per million, principally emerging markets and high yield bonds. Liquid products average variable transaction fees per million increased from \$37 for the three months ended March 31, 2012 to \$46 for the three months ended March 31, 2013, primarily due to a change in the mix of products traded.

*Distribution Fees*

The \$0.8 million decline in U.S. high-grade distribution fees was principally due to the loss of one broker-dealer market maker in the first quarter of 2012. The \$0.6 million decline in other credit distribution fees reflects a reduction to our European fee plan. Monthly distribution fees paid by most of our European broker-dealer market makers were reduced effective March 1, 2012, but the dealer variable fee schedule remained unchanged.

*Technology Products and Services.* Technology products and services revenues increased by \$0.2 million or 7.9% to \$3.1 million for the three months ended March 31, 2013, from \$2.9 million for the three months ended March 31, 2012. The increase was due to higher software license and rental fees and professional service fees of \$0.3 million.

*Information and Post-Trade Services.* Information and post-trade services increased by \$1.8 million or 97.9% to \$3.7 million for the three months ended March 31, 2013, from \$1.9 million for the three months ended March 31, 2012. Information and post-trade services revenue generated by Xtrakter totaled \$1.9 million since the February 28, 2013 acquisition date.

*Investment Income.* Investment income decreased by \$0.2 million or 56.4% to \$0.1 million for the three months ended March 31, 2013, from \$0.3 million for the three months ended March, 31 2012. The decrease was due to the reduction in cash and securities available-for-sale related to the acquisition of Xtrakter.

*Other.* Other income increased by \$0.6 million or 86.0% to \$1.4 million for the three months ended March 31, 2013, from \$0.8 million for the three months ended March, 31 2012. The increase was partially due to a gain on the sale of U.S. treasuries to fund the acquisition of Xtrakter.

**Table of Contents***Expenses*

Our expenses for the three months ended March 31, 2013 and 2012, and the resulting dollar and percentage changes were as follows:

	2013		Three Months Ended March 31, 2012		\$ Change	% Change
	\$	% of Revenues	\$	% of Revenues		
			(\$ in thousands)			
Employee compensation and benefits	\$ 16,353	29.4%	\$ 15,841	31.2%	\$ 512	3.2%
Depreciation and amortization	2,569	4.6	1,854	3.7	715	38.6
Technology and communications	3,191	5.7	2,955	5.8	236	8.0
Professional and consulting fees	4,601	8.3	3,024	6.0	1,577	52.1
Occupancy	932	1.7	759	1.5	173	22.8
Marketing and advertising	985	1.8	1,447	2.9	(462)	(31.9)
General and administrative	2,613	4.7	2,107	4.2	506	24.0
Total expenses	\$ 31,244	56.2%	\$ 27,987	55.2%	\$ 3,257	11.6%

*Employee Compensation and Benefits.* Employee compensation and benefits increased by \$0.5 million or 3.2% to \$16.4 million for the three months ended March 31, 2013, from \$15.8 million for the three months ended March 31, 2012. Our employee headcount increased from 238 as of March 31, 2012 to 306 as of March 31, 2013, mainly due to the addition of 62 Xtrakter personnel. Xtrakter employee compensation and benefits costs were \$0.8 million since the February 28, 2013 acquisition date.

*Depreciation and Amortization.* Depreciation and amortization increased by \$0.7 million or 38.6% to \$2.6 million for the three months ended March 31, 2013, from \$1.9 million for the three months ended March 31, 2012. The increase was principally due to higher amortization of software development costs resulting from increased product development and higher production equipment depreciation due to the 2012 disaster recovery data center build-out. For the three months ended March 31, 2013 and 2012, \$0.8 million and \$0.6 million, respectively, of leasehold improvements and equipment purchases and \$1.4 million and \$1.3 million, respectively, of software development costs were capitalized.

*Technology and Communications.* Technology and communications expenses increased by \$0.2 million or 8.0% to \$3.2 million for the three months ended March 31, 2013 from \$3.0 million for the three months ended March 31, 2012. The increase was mainly due to the Xtrakter acquisition.

*Professional and Consulting Fees.* Professional and consulting fees increased by \$1.6 million or 52.1% to \$4.6 million for the three months ended March 31, 2013, from \$3.0 million for the three months ended March 31, 2012. The increase was primarily due to approximately \$1.1 million in investment banking, legal and other professional fees related to the Xtrakter acquisition and higher information technology consulting expenses.

*Occupancy.* Occupancy costs increased by \$0.2 million or 22.8% to \$0.9 million for the three months ended March 31, 2013, from \$0.8 million for the three months ended March 31, 2012 principally related to office space occupied by Xtrakter in London.

*Marketing and Advertising.* Marketing and advertising expenses decreased by \$0.5 million or 31.9% to \$1.0 million for the three months ended March 31, 2013, from \$1.5 million for the three months ended March 31, 2012. The decrease was principally due to lower advertising expenses related to new product initiatives.

*General and Administrative.* General and administrative expenses increased by \$0.5 million or 24.0% to \$2.6 million for the three months ended March 31, 2013, from \$2.1 million for the three months ended March 31, 2012. The increase in general and administrative expenses was primarily attributable to approximately \$0.4 million of transaction costs related to the Xtrakter acquisition.

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*Provision for Income Tax.* For the three months ended March 31, 2013 and 2012, an income tax provision of \$9.0 million and \$9.3 million, respectively, were recorded. The decrease in the tax provision was primarily due to a decrease in the projected tax rate. Our consolidated effective tax rate for the three months ended March 31, 2013 was 37.0%, compared to 40.7% for the three months ended March 31, 2012. The income tax provision for the three months ended March 31, 2013 includes a benefit for certain 2012 tax credits enacted into law in 2013 amounting to approximately \$0.4 million. Our consolidated effective tax rate can vary from period to period depending on, among other factors, the geographic and business mix of our earnings and changes in tax legislation and tax rates.

**Liquidity and Capital Resources**

During the past three years, we have met our cash needs through cash on hand and internally generated funds. Cash and cash equivalents and securities available-for-sale totaled \$143.0 million at March 31, 2013.

On January 14, 2013, we entered into a three-year credit agreement that provides for revolving loans and letters of credit up to an aggregate of \$50.0 million. Subject to satisfaction of certain specified conditions, we are permitted to upsize the Credit Facility by an additional \$50.0 million in total. As of March 31, 2013, there was \$49.9 million of availability under the Credit Facility.

Our cash flows were as follows:

	<b>Three Months Ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
	<b>(In thousands)</b>	
Net cash provided by operating activities	\$ 10,279	\$ 13,374
Net cash (used in) provided by investing activities	(5,544)	15,892
Net cash used in financing activities	(7,927)	(78,718)
Effect of exchange rate changes on cash and cash equivalents	203	(359)
<b>Net decrease for the period</b>	<b>\$ (2,989)</b>	<b>\$ (49,811)</b>

Net cash provided by operating activities was \$10.3 million for the three months ended March 31, 2013 compared to \$13.4 million for the three months ended March 31, 2012. The \$3.1 million decrease in net cash provided by operating activities was primarily due to an increase in working capital of \$5.2 million, offset by an increase in net income of \$1.8 million and higher depreciation and amortization of \$0.7 million. During the three months ended March 31, 2013, annual year-end bonus payments were \$18.7 million compared to \$18.2 million for the three months ended March 31, 2012. During the three months ended March 31, 2013, cash paid for income taxes was \$0.8 million compared to \$1.0 million for the three months ended March 31, 2012.

Net cash used in investing activities was \$5.5 million for the three months ended March 31, 2013 compared to net cash provided by investing activities of \$15.9 million for the three months ended March 31, 2012. On February 28, 2013, we acquired Xtrakter for \$37.1 million in cash, net of cash acquired. Net proceeds of securities available-for-sale were \$33.7 million and \$17.8 million for the three months ended March 31, 2013 and 2012, respectively. Capital expenditures were \$2.2 million and \$1.9 million for the three months ended March 31, 2013 and 2012, respectively.

Net cash used in financing activities was \$7.9 million for the three months ended March 31, 2013 compared to \$78.7 million for the three months ended March 31, 2012. The \$70.8 million decrease in net cash used in financing activities was principally due to the 2012 repurchase of our common stock of \$71.1 million, offset by an increase in cash dividends paid on common stock of \$1.2 million.

Free cash flow is defined as cash flow from operating activities less expenditures for furniture, equipment and leasehold improvements and capitalized software development costs. For the 12 months ended March 31, 2013 and 2012, free cash flow was \$67.9 million and \$70.0 million, respectively. Free cash flow is a non-GAAP financial measure. We believe that this non-GAAP financial measure, when taken into consideration with the corresponding GAAP financial measures, is important in gaining an understanding of the our financial strength and cash flow generation.

Past trends of cash flows are not necessarily indicative of future cash flow levels. A decrease in cash flows may have a material adverse effect on our liquidity, business and financial condition.



**Table of Contents*****Other Factors Influencing Liquidity and Capital Resources***

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

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

We have three regulated subsidiaries, MarketAxess Corporation, MarketAxess Europe Limited and MarketAxess Canada Ltd. MarketAxess Corporation is a registered broker-dealer in the U.S., MarketAxess Europe Limited is a registered multilateral trading facility 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. Subject to rulemaking pursuant to the Dodd-Frank Act, we currently expect to establish and operate a swap execution facility and/or a security-based swap execution facility and we will be required to maintain an additional amount of minimum net capital in connection with such facilities. The following table sets forth the capital requirements, as defined, that our subsidiaries were required to maintain as of March 31, 2013:

	MarketAxess Corporation	MarketAxess Europe Limited (In thousands)	MarketAxess Canada Limited
Net capital	\$ 69,812	\$ 16,334	\$ 478
Minimum net capital required	1,585	2,753	270
Excess net capital	\$ 68,227	\$ 13,581	\$ 208

We execute certain bond transactions between and among institutional investor and broker-dealer clients on a riskless principal basis by serving as counterparty to both the buyer and the seller in matching back-to-back trades, which are then settled through a third-party clearing organization. We act as intermediary on a riskless principal basis in these bond transactions by serving as counterparty to the two clients involved. Settlement typically occurs within one to three trading days after the trade date. Cash settlement of the transaction occurs upon receipt or delivery of the underlying instrument that was traded. Under securities clearing agreements with the independent third party, we maintain collateral deposits with the clearing broker in the form of cash. As of March 31, 2013, the amount of the collateral deposits included in prepaid expenses and other assets in the Consolidated Statements of Financial Condition were \$0.9 million. We are exposed to credit risk in the event a counterparty does not fulfill its obligation to complete a transaction. Pursuant to the terms of the securities clearing agreements between us and the independent clearing broker, the clearing broker has the right to charge us for losses resulting from a counterparty's failure to fulfill its contractual obligations. The losses are not capped at a maximum amount and apply to all trades executed through the clearing broker. At March 31, 2013, we have 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.





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In October 2011, our Board of Directors authorized a share repurchase program for up to \$35.0 million of our common stock. As of March 31, 2013, we repurchased 955,342 shares of common stock at a cost of \$29.2 million. No shares were repurchased during the three months ended March 31, 2013. Shares repurchased under the program will be held in treasury for future use.

In October 2009, our Board of Directors approved our first regular quarterly dividend. In April 2013, our Board of Directors approved a quarterly cash dividend of \$0.13 per share, which will be paid on May 23, 2013 to stockholders of record as of the close of business on May 9, 2013. We expect the total amount payable to be approximately \$4.9 million. We expect to continue paying regular cash dividends, although there is no assurance as to such dividends. Any future declaration and payment of dividends will be at the sole discretion of our Board of Directors.

### ***Effects of Inflation***

Because the majority of our assets are short-term in nature, they are not significantly affected by inflation. However, the rate of inflation may affect our expenses, such as employee compensation, office leasing costs and communications expenses, which may not be readily recoverable in the prices of our services. To the extent inflation results in rising interest rates and has other adverse effects on the securities markets, it may adversely affect our financial condition and results of operations.

### **Contractual Obligations and Commitments**

There was no significant change in our contractual obligations and commitments for the three months ended March 31, 2013.

### **Item 3. *Quantitative and Qualitative Disclosures about Market Risk***

Market risk is the risk of loss resulting from adverse changes in market rates and prices, such as interest rates and foreign currency exchange rates.

#### ***Market Risk***

The global financial services business is, by its nature, risky and volatile and is directly affected by many national and international factors that are beyond our control. Any one of these factors may cause a substantial decline in the U.S. and global financial services markets, resulting in reduced trading volume and revenues. These events could have a material adverse effect on our business, financial condition and results of operations.

As of March 31, 2013, we had a \$17.1 million investment in securities available-for-sale. Adverse movements, such as a 10% decrease in the value of these securities or a downturn or disruption in the markets for these securities, could result in a substantial loss. In addition, principal gains and losses resulting from these securities could on occasion have a disproportionate effect, positive or negative, on our financial condition and results of operations for any particular reporting period.

#### ***Interest Rate Risk***

Interest rate risk represents our exposure to interest rate changes with respect to the money market instruments, U.S. Treasury obligations and fixed-income securities in which we invest. As of March 31, 2013, our cash and cash equivalents and securities available-for-sale amounted to \$143.0 million and were primarily in money market instruments and municipal securities. We do not maintain an inventory of bonds that are traded on our platform.

#### ***Derivative Risk***

Our limited derivative risk stems from our activities in the foreign currency forward contract market. We use this market to mitigate our U.S. dollar versus Pound Sterling exposure that arises from the activities of our U.K. subsidiary. As of March 31, 2013, the notional fair value of our foreign currency forward contract was \$26.2 million. We do not speculate in any derivative instruments.

#### ***Credit Risk***

We act as a riskless principal through two of our regulated subsidiaries 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.

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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. There can be no assurance that these policies and procedures will effectively mitigate our credit risk exposure.

### **Item 4. Controls and Procedures**

(a) *Evaluation of Disclosure Controls and Procedures.* Our management, including the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as that term is defined in Rule 13a-15(e) and Rule 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act), as of March 31, 2013. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures are effective to ensure that information required to be disclosed by MarketAxess in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and to ensure that information is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

(b) *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 March 31, 2013 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.

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**PART II Other Information**

**Item 1. *Legal Proceedings***

On January 2, 2013, a former employee filed a complaint against us with the U.S. Department of Labor alleging retaliatory employment practices in violation of the whistleblower provisions of the Sarbanes-Oxley Act. The relief sought includes, among other things, reinstatement, back pay and compensatory and punitive damages. We believe the complaint is without merit and intend to vigorously defend against the allegations. We filed a response to the complaint on February 26, 2013. Given the preliminary stage and the inherent uncertainty of the potential outcome of such proceedings, we cannot estimate the reasonably possible range of loss at this time. Based on the available information, we believe that the low end of the reasonably possible range of loss is zero and, accordingly, no loss accrual has been provided in our accompanying financial statements.

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

Risks that could have a negative impact on our business, results of operations and financial condition include: the volatility of financial services markets generally; the level of trading volume transacted on the MarketAxess platform; the absolute level and direction of interest rates and the corresponding volatility in the corporate fixed-income market; the level and intensity of competition in the fixed-income electronic trading industry and the pricing pressures that may result; the variability of our growth rate; the rapidly evolving nature of the electronic financial services industry; our ability to introduce new fee plans and our clients' response; our exposure to risks resulting from non-performance by counterparties to transactions executed between our clients in which we act as an intermediary in matching back-to-back trades; our dependence on our broker-dealer clients; the loss of any of our significant institutional investor clients; our ability to develop new products and offerings and the market's acceptance of those products; the effect of rapid market or technological changes on us and the users of our technology; our ability to successfully maintain the integrity of our trading platform and our response to system failures, capacity constraints and business interruptions; our vulnerability to cyber security risks; our ability to protect our intellectual property rights or technology and defend against intellectual property infringement or other claims; our ability to enter into strategic alliances and to acquire other businesses and successfully integrate them with our business; our ability to comply with new laws, rules and regulations both domestically and internationally; our ability to maintain effective compliance and risk management methods; the strain of growth initiatives on management and other resources; our future capital needs and our ability to obtain capital when needed; limitations on our operating flexibility contained in our credit agreement; and other factors. The Company's actual results and financial condition may differ, perhaps materially, from the anticipated results and financial condition in any such forward-looking statements. The Company undertakes no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise. A more detailed description of each of these and other important risk factors can be found under the caption "Risk Factors" in our most recent Form 10-K for the year ended December 31, 2012. There have been no material changes to the risk factors described in such Form 10-K.

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

**Recent Sales of Unregistered Securities**

None.

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

During the quarter ended March 31, 2013, 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)
January 1, 2013 – January 31, 2013		\$		\$ 5,847
February 1, 2013 – February 28, 2013				\$ 5,847
March 1, 2013 – March 31, 2013				\$ 5,847
		\$		

In October 2011, our Board of Directors authorized a share repurchase program for up to \$35.0 million of our common stock. As of March 31, 2013, we repurchased 955,342 shares of common stock at a cost of \$29.2 million. No shares were repurchased during the three months ended March 31, 2013. Shares repurchased under the program will be held in treasury for future use.

**Item 3. Defaults upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not applicable

**Item 5. Other Information**

None.

**Item 6. Exhibits**

Exhibit Listing:

Number	Description
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
101.INS	XBRL Instance Document**
101.SCH	XBRL Taxonomy Extension Schema Document**

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101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document**
101.LAB	XBRL Taxonomy Extension Label Linkbase Document**
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document**
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document**

\*\* Attached as Exhibit 101 to this Quarterly Report on Form 10-Q are the following materials, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Statements of Financial Condition as of March 31, 2013 and December 31, 2012; (ii) Consolidated Statements of Operations for the Three Months Ended March 31, 2013 and 2012; (iii) Consolidated Statements of Comprehensive Income for the Three Months Ended March 31, 2013 and 2012; (iv) Consolidated Statement of Stockholders' Equity for the Three Months Ended March 31, 2013; (v) Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2013 and 2012; and (vi) Notes to the Consolidated Financial Statements.

Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

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**SIGNATURES**

Pursuant to the requirements 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.

Date: April 26, 2013

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

(principal executive officer)

Date: April 26, 2013

By: /s/ ANTONIO L. DELISE  
Antonio L. DeLise  
Chief Financial Officer

(principal financial and accounting officer)