MARKETAXESS HOLDINGS INC
Form 10-Q
July 30, 2010

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

(Mark One)

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

For the quarterly period ended June 30, 2010

or

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

For the transition period from __________ to __________

Commission File Number 001-34091

MARKETAXESS HOLDINGS INC.

(Exact name of registrant as specified in its charter)

Delaware	**52-2230784**
(State or other jurisdiction of incorporation or organization)	*(IRS Employer Identification No.)*
299 Park Avenue, 10th Floor New York, New York	**10171**
(Address of principal executive offices)	*(Zip Code)*

(212) 813-6000

(Registrant s telephone number, including area code)

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

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 o No o

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

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

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

As of July 28, 2010, the number of shares of the Registrant s voting common stock outstanding was 32,175,114 and the number of shares of the Registrant s non-voting common stock was 2,585,654.

MARKETAXESS HOLDINGS INC.
FORM 10-Q FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2010
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PART I Financial Information

Item 1. ***Financial Statements***

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

	As of	
	June 30, 2010	December 31, 2009
	(In thousands, except share and per share amounts)	
ASSETS		
Cash and cash equivalents	$ 113,526	$ 103,341
Securities available-for-sale, at fair value	74,087	70,997
Securities and cash provided as collateral	4,894	4,971
Accounts receivable, including receivables from related parties of $2,816 and $3,431, respectively, net of allowance of $769 and $859 as of June 30, 2010 and December 31, 2009, respectively	24,091	23,150
Furniture, equipment and leasehold improvements, net of accumulated depreciation and amortization	9,386	6,856
Software development costs, net of accumulated amortization	3,053	3,420
Goodwill and intangible assets, net of accumulated amortization	36,771	37,530
Prepaid expenses and other assets	3,052	3,041
Deferred tax assets, net	16,576	23,980
Total assets	$ 285,436	$ 277,286
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities		
Accrued employee compensation	$ 8,508	$ 15,157
Deferred revenue	4,279	4,262
Accounts payable, accrued expenses and other liabilities, including payables to related parties of $58 and $29 as of June 30, 2010 and December 31, 2009, respectively	12,224	11,050
Total liabilities	25,011	30,469
Commitments and Contingencies (Note 10)		
Series B Preferred Stock, $0.001 par value, 35,000 shares authorized, issued and outstanding as of June 30, 2010 and December 31, 2009, liquidation preference of $1,000 per share	30,315	30,315
Stockholders equity		
Preferred stock, $0.001 par value, 4,855,000 shares authorized, no shares issued and outstanding as of June 30, 2010 and December 31, 2009		
Series A Preferred Stock $0.001 par value, 110,000 shares authorized, no shares issued, and outstanding as of June 30, 2010 and December 31, 2009		
	106	104

Common stock voting, $0.003 par value, 110,000,000 shares authorized, 35,364,234 shares and 34,654,957 shares issued as of June 30, 2010 and December 31, 2009, respectively		
Common stock non-voting, $0.003 par value, 10,000,000 shares authorized, 2,585,654 shares issued and outstanding as of June 30, 2010 and December 31, 2009	9	9
Additional paid-in capital	318,638	313,896
Receivable for common stock subscribed	(595)	(713)
Treasury stock Common stock voting, at cost, 2,864,120 shares as of June 30, 2010 and December 31, 2009	(40,000)	(40,000)
Accumulated deficit	(46,914)	(55,403)
Accumulated other comprehensive loss	(1,134)	(1,391)
Total stockholders equity	230,110	216,502
Total liabilities and stockholders equity	$ 285,436	$ 277,286

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

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MARKETAXESS HOLDINGS INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	(In thousands, except share and per share amounts)			
Revenues				
Commissions				
U.S. high-grade	$ 20,249	$ 13,808	$ 40,025	$ 27,323
Eurobond	4,669	4,712	10,161	8,854
Other	4,542	3,310	8,581	6,099
Total commissions	29,460	21,830	58,767	42,276
Technology products and services	3,251	2,096	6,415	4,119
Information and user access fees	1,722	1,504	3,356	3,159
Investment income	315	234	606	566
Other	578	175	1,066	351
Total revenues	35,326	25,839	70,210	50,471
Expenses				
Employee compensation and benefits	14,189	11,917	28,122	23,359
Depreciation and amortization	1,622	1,679	3,238	3,470
Technology and communications	2,353	2,120	4,770	4,362
Professional and consulting fees	1,990	1,613	4,128	3,492
Occupancy	707	693	1,645	1,369
Marketing and advertising	759	708	1,387	1,353
General and administrative	1,850	1,373	3,979	2,599
Total expenses	23,470	20,103	47,269	40,004
Income before income taxes	11,856	5,736	22,941	10,467
Provision for income taxes	4,687	2,549	9,071	4,441
Net income	$ 7,169	$ 3,187	$ 13,870	$ 6,026
Net income per common share				
Basic	$ 0.19	$ 0.09	$ 0.37	$ 0.16
Diluted	$ 0.18	$ 0.08	$ 0.35	$ 0.16
Cash dividends declared per common share	$ 0.07	$	$ 0.14	$
Weighted average common shares				
Basic	33,732,905	33,255,901	33,679,209	33,219,688
Diluted	39,513,609	37,853,809	39,409,541	37,660,205

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

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MARKETAXESS HOLDINGS INC.
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY
AND ACCUMULATED OTHER COMPREHENSIVE LOSS
FOR THE SIX MONTHS ENDED JUNE 30, 2010
(Unaudited)

	Common Stock Voting	Common Stock Non-Voting	Additional Paid-In Capital	Receivable for Common Stock Subscribed	Treasury Stock Common Stock Voting	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders Equity
				(In thousands)				
Balance at December 31, 2009	$ 104	$ 9	$ 313,896	$ (713)	$ (40,000)	$ (55,403)	$ (1,391)	$ 216,502
Comprehensive income:								
Net income						13,870		13,870
Cumulative translation adjustment and foreign currency exchange hedge, net of tax							(317)	(317)
Unrealized net gain on securities available-for-sale, net of tax							574	574
Total comprehensive income								14,127
Stock-based compensation			4,500					4,500
Exercise of stock options and grants of restricted stock, net of withholding tax on stock vesting	2		(236)					(234)
Cash dividend on common stock and Series B Preferred Stock						(5,381)		(5,381)
Repayment of promissory notes				118				118
Windfall tax benefits from stock-based			478					478

compensation								
Balance at June 30, 2010	$ 106	$ 9	$ 318,638	$ (595)	$ (40,000)	$ (46,914)	$ (1,134)	$ 230,110

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

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

	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
	(In thousands)	
Cash flows from operating activities		
Net income	$ 13,870	$ 6,026
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,238	3,470
Stock-based compensation expense	4,500	4,152
Deferred taxes	7,233	4,196
Provision for bad debts	305	444
Changes in operating assets and liabilities		
(Increase) in accounts receivable	(1,246)	(8,846)
(Increase) decrease in prepaid expenses and other assets	(11)	546
Decrease in accrued employee compensation	(6,649)	(4,211)
Increase (decrease) in deferred revenue	17	(212)
Increase in accounts payable, accrued expenses and other liabilities	1,300	322
Net cash provided by operating activities	22,557	5,887
Cash flows from investing activities		
Acquisition of business		(1,368)
Securities available-for-sale:		
Proceeds from maturities	29,214	8,824
Purchases	(31,363)	(29,428)
Securities and cash provided as collateral	77	(254)
Purchases of furniture, equipment and leasehold improvements	(3,824)	(926)
Capitalization of software development costs	(821)	(997)
Net cash used in investing activities	(6,717)	(24,149)
Cash flows from financing activities		
Cash dividend on common stock and Series B Preferred Stock	(5,381)	
Proceeds from exercise of stock options and grants of restricted stock, net of withholding tax	(234)	235
Windfall tax benefits from stock-based compensation	478	(334)
Other	(8)	24
Net cash used in financing activities	(5,145)	(75)
Effect of exchange rate changes on cash	(510)	(249)
Cash and cash equivalents		
Net increase (decrease) for the period	10,185	(18,586)
Beginning of year	103,341	107,323

End of period	$ 113,526	$ 88,737
Supplemental cash flow information:		
Cash paid during the year:		
Income taxes paid (refunded)	$ 1,064	$ (100)
Non-cash activity:		
Capital lease obligation	$	$ 723

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

The Company s stockholder broker-dealer clients as of January 1, 2010 were BNP Paribas, Credit Suisse and JPMorgan. These broker-dealer clients constitute related parties of the Company (together, the Stockholder Broker-Dealer Clients). For 2009, the same three dealers were considered to be Stockholder Broker-Dealer Clients. See Note 7, Related Parties.

2. Significant Accounting Policies

Basis of Presentation

The Consolidated Financial Statements include the accounts of the Company and its subsidiaries. All intercompany transactions and balances have been eliminated. These Consolidated Financial Statements are unaudited and should be read in conjunction with the audited Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2009. The consolidated financial information as of December 31, 2009 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 include cash maintained at U.S. and U.K. banks and in money market funds. The Company defines cash equivalents as short-term interest-bearing investments with maturities at the time of purchase of three months or less. The Company s cash is held at major international banks. Given this concentration, the Company may be exposed to certain credit risk.

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.

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MARKETAXESS HOLDINGS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Unaudited (Continued)

The Company assesses whether an other-than-temporary impairment loss on the investments has occurred due to declines in fair value or other market conditions. The portion of an other-than-temporary impairment related to credit loss is recorded as a charge in the Consolidated Statements of Operations. The remainder is recognized in other comprehensive loss if the Company does not intend to sell the security and it is more likely than not that the Company will not be required to sell the security prior to recovery. No charges for other-than-temporary losses were recorded during the six months ended June 30, 2010 and 2009.

Fair Value Financial Instruments

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

Securities and Cash Provided as Collateral

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

Allowance for Doubtful Accounts

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

Depreciation and Amortization

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

Software Development Costs

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

Foreign Currency Translation and Forward Contracts

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

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

MARKETAXESS HOLDINGS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Unaudited (Continued)

Revenue Recognition

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

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

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

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

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

Revenues from contracts for technology integration consulting services are recognized on the percentage-of-completion method. Percentage-of-completion accounting involves calculating the percentage of services provided during the reporting period compared to the total estimated services to be provided over the duration of the contract. If estimates indicate that a contract loss will occur, a loss provision is recorded in the period in which the loss first becomes probable and reasonably estimable. Contract losses are determined to be the amount by which the estimated direct and indirect costs of the contract exceed the estimated total revenues that will be generated by the contract. There were no material contract loss provisions recorded as of June 30, 2010 and December 31, 2009. Revenues recognized in excess of billings are recorded as unbilled services. Billings in excess of revenues recognized are recorded as deferred revenues until revenue recognition criteria are met.

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

MARKETAXESS HOLDINGS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Unaudited (Continued)

Stock-Based Compensation

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

Income Taxes

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

Business Combinations, Goodwill and Intangible Assets

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

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

Earnings Per Share

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

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

Use of Estimates

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

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MARKETAXESS HOLDINGS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS   Unaudited (Continued)

Recent Accounting Pronouncements

In October 2009, the Financial Accounting Standards Board (FASB) issued authoritative guidance on revenue recognition. The guidance requires entities to allocate revenue in an arrangement with multiple deliverables using estimated selling prices of the delivered goods and services based on a selling price hierarchy. The guidance eliminates the residual method of revenue allocation and requires revenue to be allocated using the relative selling price method. The guidance also removes tangible products from the scope of software revenue guidance and provides guidance on determining whether software deliverables in an arrangement that includes a tangible product are covered by the scope of the software revenue guidance. Adoption will be applied on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with early adoption permitted. The Company does not expect adoption of the new revenue recognition guidance to have a material impact on the Company s 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 $5,000 or 6 2/3% of aggregate indebtedness. MarketAxess Europe Limited, a U.K. subsidiary, is registered as a Multilateral Trading Facility with the Financial Services Authority (FSA) in the U.K. MarketAxess Canada Limited, a Canadian subsidiary, is registered as an Alternative Trading System dealer under the Securities Act of Ontario and is a member of the Investment Industry Regulatory Organization of Canada. MarketAxess Europe Limited and MarketAxess Canada Limited are subject to certain financial resource requirements of the FSA and the Ontario Securities Commission, respectively. The following table sets forth the capital requirements, as defined, that the Company s subsidiaries were required to maintain as of June 30, 2010:

	MarketAxess Corporation	MarketAxess Europe Limited (In thousands)	MarketAxess Canada Limited
Net capital	$ 49,571	$ 23,960	$ 411
Minimum net capital required	1,059	3,575	259
Excess net capital	$ 48,512	$ 20,385	$ 152

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.

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MARKETAXESS HOLDINGS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Unaudited (Continued)

4. Fair Value Measurements

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

	Level 1	Level 2	Level 3	Total
		(In thousands)		
As of June 30, 2010				
Securities available-for-sale				
U.S. government obligations	$	$ 41,067	$	$ 41,067
Municipal securities		30,995		30,995
Corporate bonds		2,025		2,025
Foreign currency forward position		(338)		(338)
	$	$ 73,749	$	$ 73,749
As of December 31, 2009				
Securities available-for-sale				
U.S. government obligations	$	$ 40,078	$	$ 40,078
Municipal securities		28,873		28,873
Corporate bonds		2,046		2,046
Foreign currency forward position		(259)		(259)
	$	$ 70,738	$	$ 70,738

Securities classified within Level 2 were valued using a market approach utilizing prices and other relevant information generated by market transactions involving comparable assets. The foreign currency forward contract is classified within Level 2 as the valuation inputs are based on quoted market prices.

The Company enters into foreign currency forward contracts with a noncontrolling stockholder broker-dealer client to hedge the exposure to variability in foreign currency cash flows resulting from the net investment in the Company s U.K. subsidiary. The Company assesses each foreign currency forward contract to ensure that it is highly effective at reducing the exposure being hedged. The Company designates each foreign currency forward contract as a hedge, assesses the risk management objective and strategy, including identification of the hedging instrument, the hedged item and the risk exposure and how effectiveness is to be assessed prospectively and retrospectively. These hedges are for a one-month period and are used to limit exposure to foreign currency exchange rate fluctuations. The gross and net fair value liability of $0.3 million as of both June 30, 2010 and December 31, 2009, is included in accounts payable, in the Consolidated Statements of Financial Condition. Gains or losses on foreign currency forward contracts designated as hedges are included in accumulated other comprehensive loss in the Consolidated Statements of Financial Condition. A summary of the foreign currency forward contract is as follows:

	As of	
	June 30, 2010	December 31, 2009
	(In thousands)	
Notional value	$ 26,097	$ 28,040
Fair value of notional	26,435	28,299

Gross and net fair value liability	$ (338)	$ (259)

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MARKETAXESS HOLDINGS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Unaudited (Continued)

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

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
		(In thousands)		
As of June 30, 2010				
U.S. government obligations	$ 39,685	$ 1,382	$	$ 41,067
Municipal securities	30,983	24	(12)	30,995
Corporate bonds	2,016	9		2,025
Total securities available-for-sale	$ 72,684	$ 1,415	$ (12)	$ 74,087
As of December 31, 2009				
U.S. government obligations	$ 39,629	$ 469	$ (20)	$ 40,078
Municipal securities	28,878	4	(9)	28,873
Corporate bonds	2,028	18		2,046
Total securities available-for-sale	$ 70,535	$ 491	$ (29)	$ 70,997

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

	As of	
	June 30, 2010	December 31, 2009
	(In thousands)	
Less than one year	$ 23,556	$ 30,919
Due in 1 - 5 years	50,531	40,078
Total securities available-for-sale	$ 74,087	$ 70,997

Proceeds from the maturities of securities available-for-sale during the six months ended June 30, 2010 and 2009 were $29.2 million and $8.8 million, respectively.

The following table provides fair values and unrealized losses on securities available-for-sale and by the aging of the securities continuous unrealized loss position:

	Less than Twelve Months		Twelve Months or More		Total	
	Estimated fair value	Gross unrealized losses	Estimated fair value	Gross unrealized losses	Estimated fair value	Gross unrealized losses
			(In thousands)			
As of June 30, 2010						
U.S. government obligations	$	$	$	$	$	$

Municipal securities	16,905	(12)			16,905	(12)
Corporate bonds						
Total securities available-for-sale	$ 16,905	$ (12)	$	$	$ 16,905	$ (12)
As of December 31, 2009						
U.S. government obligations	$ 9,944	$ (20)	$	$	$ 9,944	$ (20)
Municipal securities	13,644	(9)			13,644	(9)
Corporate bonds						
Total securities available-for-sale	$ 23,588	$ (29)	$	$	$ 23,588	$ (29)

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MARKETAXESS HOLDINGS INC.
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5. Goodwill and Intangible Assets

Goodwill and intangible assets principally relate to the acquisitions of Greenline Financial Technologies, Inc. in 2008 and Trade West Systems, LLC in 2007. Goodwill was $31.8 million as of both June 30, 2010 and December 31, 2009.

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

	June 30, 2010			December 31, 2009		
	Cost	Accumulated Amortization	Net Carrying Amount	Cost	Accumulated Amortization	Net Carrying Amount
	(In thousands)					
Technology	$ 4,010	$ (2,158)	$ 1,852	$ 4,010	$ (1,807)	$ 2,203
Customer relationships	3,530	(1,351)	2,179	3,530	(1,119)	2,411
Non-competition agreements	1,260	(584)	676	1,260	(459)	801
Tradenames	590	(311)	279	590	(259)	331
Total	$ 9,390	$ (4,404)	$ 4,986	$ 9,390	$ (3,644)	$ 5,746

Amortization expense associated with identifiable intangible assets was $0.8 million for both the six months ended June 30, 2010 and 2009. Estimated total amortization expense is $1.5 million for 2010 and 2011, $1.4 million for 2012, $0.5 million for 2013 and $0.3 million for 2014.

6. Income Taxes

The provision for income taxes consists of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	(In thousands)			
Current:				
Federal	$ 242	$	$ 406	$
State and local	1	(12)	(32)	(12)
Foreign	488	584	1,010	652
Total current provision	731	572	1,384	640
Deferred:				
Federal	3,231	1,350	6,169	2,266
State and local	764	621	1,485	1,107
Foreign	(39)	6	33	428
Total deferred provision	3,956	1,977	7,687	3,801
Provision for income taxes	$ 4,687	$ 2,549	$ 9,071	$ 4,441

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

	As of June 30, 2010	As of December 31, 2009
	(In thousands)	
Deferred tax assets and liabilities	$ 17,258	$ 24,646
Valuation allowance	(682)	(666)
Deferred tax assets, net	$ 16,576	$ 23,980

MARKETAXESS HOLDINGS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Unaudited (Continued)

As of June 30, 2010, the Company had deferred tax assets associated with stock-based compensation of approximately $6.0 million. There is a risk that the ultimate tax benefit realized upon the exercise of stock options or vesting of restricted stock could be less than the tax benefit previously recognized and in a manner sufficient to exhaust the additional paid-in capital pool. If this should occur, any excess tax benefit previously recognized would be reversed, resulting in an increase in tax expense. Since the tax benefit to be realized in the future is unknown, it is not currently possible to estimate the impact on the deferred tax balance. As of June 30, 2010, the additional paid-in-capital pool was approximately $3.5 million.

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 and state (through 2003) and Connecticut state (through 2003) tax returns. The Company s New York state franchise tax returns for 2004 through 2006 are currently under examination. The Company cannot estimate when the examination will conclude.

7. Related Parties

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

	As of	
	June 30, 2010	**December 31, 2009**
	(In thousands)	
Cash and cash equivalents	$ 102,088	$ 101,273
Securities and cash provided as collateral	4,021	4,067
Accounts receivable	2,816	3,431
Accounts payable	58	29

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2010	**2009**	**2010**	**2009**
	(In thousands)			
Commissions	$ 3,978	$ 3,349	$ 7,897	$ 6,419
Technology products and services	5	10	12	19
Information and user access fees	77	64	147	125
Investment income	33	58	56	148
Other income	48	38	104	80
General and administrative	17	31	44	49

In 2001, the Company awarded 289,581 shares of restricted stock to the Company s Chief Executive Officer at a purchase price of $3.60 per share, which shares vested over a three-year period. The common stock subscribed was issued in exchange for eleven-year promissory notes that bear interest at the applicable federal rate and are collateralized by the subscribed shares. As of June 30, 2010, the Company had loans and interest receivable due from the Chief Executive Officer of $0.6 million. In July 2010, the loan and interest receivable were paid in full.

MARKETAXESS HOLDINGS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Unaudited (Continued)

8. Stock-Based Compensation Plans

Stock-based compensation expense for the three and six months ended June 30, 2010 and 2009 was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	(In thousands)			
Employee:				
Stock options	$ 432	$ 749	$ 871	$ 1,520
Restricted stock and performance shares	1,777	1,287	3,378	2,441
	2,209	2,036	4,249	3,961
Non-employee directors:				
Stock options	29	23	83	55
Restricted stock	68	55	168	136
	97	78	251	191
Total stock-based compensation	$ 2,306	$ 2,114	$ 4,500	$ 4,152

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

During the six months ended June 30, 2010, the Company granted to employees a total of 4,502 options to purchase shares of common stock, 500,034 shares of restricted stock and performance-based shares with an expected pay-out of 90,532 shares of common stock. Based on the Black-Scholes option pricing model, the weighted-average fair value for each option granted was $5.62 per share. The fair value of the restricted stock and performance-based share awards was based on a weighted-average grant date fair value per share of $14.94 and $14.29, respectively. As of June 30, 2010, there were $14.0 million of total unrecognized compensation costs related to non-vested awards. That cost is expected to be recognized over a weighted-average period of 1.7 years.

MARKETAXESS HOLDINGS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Unaudited (Continued)

9. Earnings Per Share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	(In thousands, except share and per share amounts)			
Basic EPS				
Net income	$ 7,169	$ 3,187	$ 13,870	$ 6,026
Amount allocable to common shareholders	90.6%	90.5%	90.6%	90.5%
Net income applicable to common stock	$ 6,495	$ 2,884	$ 12,564	$ 5,452
Common stock voting	31,147,251	30,670,247	31,093,555	30,634,034
Common stock non-voting	2,585,654	2,585,654	2,585,654	2,585,654
Basic weighted average shares outstanding	33,732,905	33,255,901	33,679,209	33,219,688
Basic earnings per share	$ 0.19	$ 0.09	$ 0.37	$ 0.16
Diluted EPS				
Net income	$ 7,169	$ 3,187	$ 13,870	$ 6,026
Basic weighted average shares outstanding	33,732,905	33,255,901	33,679,209	33,219,688
Effect of dilutive shares:				
Series B Preferred Stock	3,500,000	3,500,000	3,500,000	3,500,000
Stock options, restricted stock and warrants	2,280,704	1,097,908	2,230,333	940,517
Diluted weighted average shares outstanding	39,513,609	37,853,809	39,409,541	37,660,205
Diluted earnings per share	$ 0.18	$ 0.08	$ 0.35	$ 0.16

Stock options, restricted stock and warrants totaling 0.5 million shares and 4.4 million shares for the three months ended June 30, 2010 and 2009, respectively, and 0.6 million shares and 4.6 million shares for the six months ended June 30, 2010 and 2009, respectively, were excluded from the computation of diluted earnings per share because their effect would have been antidilutive. The computation of diluted shares can vary among periods due, in part, to the change in the average price of the Company s common stock.

10. Commitments and Contingencies

The Company leases office space and equipment under non-cancelable lease agreements expiring at various dates through 2022. Office space leases are subject to escalation based on certain costs incurred by the landlord. Minimum rental commitments as of June 30, 2010 under such operating and capital leases, net of future sublease income of

$0.5 million and $0.3 million in 2010 and 2011, respectively, were as follows:

	Operating Leases	Capital Leases
	(In thousands)	
Remainder of 2010	$ 1,090	$ 168
2011	2,045	336
2012	2,008	336
2013	1,992	322
2014	1,959	42
2015	2,001	
Thereafter	10,661	
Minimum lease payments	21,756	1,204
Less amount representing interest		147
	$ 21,756	$ 1,057

Rental expense for both the three months ended June 30, 2010 and 2009 was $0.6 million, and for the six months ended June 30, 2010 and 2009 was $1.5 million and $1.2 million, respectively, and is included in occupancy expenses in the Consolidated Statements

MARKETAXESS HOLDINGS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Unaudited (Continued)

of Operations. Rental expense has been recorded based on the total minimum lease payments after giving effect to rent abatement and concessions, which are being amortized on a straight-line basis over the life of the lease, and sublease income.

The Company has entered into a sublease agreement on one of its leased properties through the April 2011 lease termination date. In May 2008, the Company assigned the lease agreement on another leased property to a third party. The Company is contingently liable should the assignee default on future lease obligations through the November 2015 lease termination date. The aggregate amount of future lease obligations under these two arrangements was $2.8 million as of June 30, 2010.

The Company is contingently obligated for standby letters of credit that were issued to landlords for office space. The Company uses a U.S. government obligation as collateral for these standby letters of credit. This collateral is included with securities and cash provided as collateral in the Consolidated Statements of Financial Condition and had a fair market value and amortized cost of $3.5 million as of both June 30, 2010 and December 31, 2009.

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 June 30, 2010, the collateral deposit included in securities and cash provided as collateral in the Consolidated Statements of Financial Condition was $0.9 million. The Company is exposed to credit risk in the event a counterparty does not fulfill its obligation to complete a transaction. Pursuant to the terms of the securities clearing agreements between the Company and the independent clearing broker, the clearing broker has the right to charge the Company for losses resulting from a counterparty s failure to fulfill its contractual obligations. The losses are not capped at a maximum amount and apply to all trades executed through the clearing broker. At June 30, 2010, 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.

In January 2007, a former employee of MarketAxess Corporation commenced an arbitration proceeding before FINRA arising out of the May 2006 termination of such individual s employment with MarketAxess Corporation. This individual subsequently amended his statement of claim to add MarketAxess Holdings Inc. as a party to the arbitration proceeding. FINRA consolidated all of the former employee s claims into a single proceeding and, by an award dated July 12, 2010, the FINRA arbitration panel denied the former employee s claims, totaling approximately $0.9 million, in their entirety. The former employee s right to appeal the panel s decision expires in October 2010.

11. Comprehensive Income

Comprehensive income was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	**2009**	**2010**	**2009**
	(In thousands)			
Net income	$ 7,169	$ 3,187	$ 13,870	$ 6,026
Cumulative translation adjustment and foreign currency exchange hedge, net of taxes	(124)	(49)	(317)	(132)
	429	192	574	233

Unrealized net gain on securities available-for-sale, net of taxes								
Total comprehensive income	$	7,474	$	3,330	$	14,127	$	6,127

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MARKETAXESS HOLDINGS INC.
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12. Customer Concentration

During both the six months ended June 30, 2010 and 2009, no single client accounted for more than 10% of total revenue. One client accounted for 15.5% and 12.5% of trading volumes during the six months ended June 30, 2010 and 2009, respectively.

13. Share Repurchase Program

In June 2010, the Board of Directors of the Company authorized a share repurchase program for up to $30.0 million of the Company s common stock. Shares repurchased under the program will be held in treasury for future use. Through June 30, 2010, no shares had been repurchased under the program.

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, statement regarding the outlook for our future business and financial performance. Forward-looking statements are based on management s current expectations and assumptions, which are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. It is routine for our internal projections and expectations to change as the year or each quarter in the year progresses, and therefore it should be clearly understood that the internal projections and beliefs upon which we base our expectations may change prior to the end of each quarter or the year. Although these expectations may change, we are under no obligation to revise or update any forward-looking statements contained in this report. Our company policy is generally to provide our expectations only once per quarter, and not to update that information until the next quarter. Actual future events or results may differ 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 allows investment industry professionals to efficiently trade corporate bonds and other types of fixed-income instruments. Our 796 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 July 2009 and June 2010) include investment advisers, mutual funds, insurance companies, public and private pension funds, bank portfolios, broker-dealers and hedge funds. Our 80 broker-dealer market-maker clients provide liquidity on the platform and include most of the leading broker-dealers in global fixed-income trading. The Company also executes certain bond transactions between and among institutional investor and broker-dealer clients on a riskless principal basis by serving as counterparty to both the buyer and the seller in matching back-to-back trades, which then settle through a third-party clearing organization. Through our Corporate BondTicker service, we provide fixed-income market data, analytics and compliance tools that help our clients make trading decisions. In addition, we provide FIX (Financial Information eXchange) message management tools, connectivity solutions and ancillary technology services that facilitate the electronic communication of order information between trading counterparties.

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

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

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;

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

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

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

Critical Factors Affecting Our Industry and Our Company

Economic, Political and Market Factors

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

Competitive Landscape

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

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

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

Regulatory Environment

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

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

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act was signed into law, marking the greatest change to financial supervision since the 1930 s. U.S. financial regulators will enter an intense period of rulemaking over the next six to 18 months, 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 bill 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 bill, many of the details of the new regulatory regime relating to swaps are left to the regulators to determine through rulemaking. Subject to such rulemaking, we intend to register and operate a swap execution facility.

As a public company listed on the NASDAQ Global Select Market, we are subject to the reporting requirements of the Securities Exchange Act of 1934, the Sarbanes-Oxley Act of 2002 and NASDAQ rules. The requirements of these rules and regulations impose legal and financial compliance costs, make some activities more difficult, time-consuming and/or costly and may also place a strain on our systems and resources. In order to maintain and improve the effectiveness of our disclosure controls and procedures and internal control over financial reporting, significant resources and management oversight are required.

Rapid Technological Changes

We must continue to enhance and improve our electronic trading platform. The electronic financial services industry is characterized by increasingly complex systems and infrastructures and new business models. Our future success will depend on our ability to enhance our existing products and services, develop and/or license new products and technologies that address the increasingly sophisticated and varied needs of our broker-dealer and institutional investor clients and prospective clients and respond to technological advances and emerging industry standards and practices on a cost-effective and timely basis. We received five patents in 2009 covering our most significant trading protocols and other aspects of our trading system technology, and other patents are pending.

Trends in Our Business

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

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

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

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

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

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

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

Other Revenue

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

Technology Products and Services. Technology products and services includes software licenses, maintenance and support services and professional consulting services.

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

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

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

Expenses

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

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

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

amortized over their estimated useful lives, ranging from five to ten years. Intangible assets are assessed for impairment when events or circumstances indicate a possible impairment.

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

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

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

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

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

Expenses may grow in the future, primarily due to investment in new products, notably in employee compensation and benefits, professional and consulting fees, and general and administrative expense. 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 six months ended June 30, 2010, 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, 2009.

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.

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Results of Operations

Three Months Ended June 30, 2010 Compared to Three Months Ended June 30, 2009

Overview

Total revenues increased by $9.5 million or 36.7% to $35.3 million for the three months ended June 30, 2010, from $25.8 million for the three months ended June 30, 2009. This increase in total revenues was primarily due to increases in commissions of $7.6 million and technology products and services revenues of $1.2 million.

Total expenses increased by $3.4 million or 16.7% to $23.5 million for the three months ended June 30, 2010, from $20.1 million for the three months ended June 30, 2009. The increase was primarily due to higher employee compensation and benefits of $2.3 million and general and administrative expense of $0.5 million.

Income before taxes increased by $6.1 million or 106.7% to $11.9 million for the three months ended June 30, 2010, from $5.7 million for the three months ended June 30, 2009. Net income increased by $4.0 million or 124.9% to $7.2 million for the three months ended June 30, 2010, from $3.2 million for three months ended June 30, 2009.

Revenues

Our revenues for the three months ended June 30, 2010 and 2009, and the resulting dollar and percentage changes, were as follows:

	Three Months Ended June 30,					
	2010		2009			
	$	% of Revenues	$	% of Revenues	$ Change	% Change
	($ in thousands)					
Commissions	$ 29,460	83.4%	$ 21,830	84.5%	$ 7,630	35.0%
Technology products and services	3,251	9.2	2,096	8.1	1,155	55.1
Information and user access fees	1,722	4.9	1,504	5.8	218	14.5
Investment income	315	0.9	234	0.9	81	34.6
Other	578	1.6	175	0.7	403	230.3
Total revenues	$ 35,326	100.0%	$ 25,839	100.0%	$ 9,487	36.7%

Commissions. Our commission revenues for the three months ended June 30, 2010 and 2009, and the resulting dollar and percentage changes, were as follows:

	Three Months Ended June 30,			
	2010	2009	$ Change	% Change
	($ in thousands)			
Distribution fees				
U.S. high-grade	$ 9,256	$ 7,635	$ 1,621	21.2%
Eurobond	3,016	2,982	34	1.1
Total distribution fees	12,272	10,617	1,655	15.6
Variable transaction fees				
U.S. high-grade	10,993	6,173	4,820	78.1
Eurobond	1,653	1,730	(77)	(4.5)
Other	4,542	3,310	1,232	37.2
Total variable transaction fees	17,188	11,213	5,975	53.3

Total commissions	$ 29,460	$ 21,830	$ 7,630	35.0%

The $1.7 million increase in distribution fees for the three months ended June 30, 2010 compared to the three months ended June 30, 2009 is due principally to the additional U.S. broker-dealer market makers on the platform.

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The following table shows the extent to which the increase in commissions for the three months ended June 30, 2010 was attributable to changes in transaction volumes, variable transaction fees per million and monthly distribution fees:

	Change from Three Months Ended June 30, 2009			
	U.S. High-Grade	Eurobond	Other	Total
	(In thousands)			
Volume increase (decrease)	$ 3,299	$ (56)	$ 2,445	$ 5,688
Variable transaction fee per million increase (decrease)	1,521	(21)	(1,213)	287
Monthly distribution fees increase	1,621	34		1,655
Total commissions increase (decrease)	$ 6,441	$ (43)	$ 1,232	$ 7,630

Our trading volumes for the three months ended June 30, 2010 and 2009 were as follows:

	Three Months Ended June 30,			
	2010	2009	$ Change	% Change
Trading Volume Data (in millions)				
U.S. high-grade	$ 58,170	$ 37,910	$ 20,260	53.4%
Eurobond	12,739	13,169	(430)	(3.3)
Other	27,372	15,742	11,630	73.9
Total	$ 98,281	$ 66,821	$ 31,460	47.1%
Number of U.S. Trading Days	63	63		
Number of U.K. Trading Days	61	61		

For volume reporting purposes, transactions in foreign currencies are converted to U.S. dollars at average monthly rates. The 53.4% increase in U.S. high-grade volume was principally due to an increase in the Company s estimated market share of total U.S. high-grade corporate bond volume as reported by FINRA TRACE from 4.7% for the three months ended June 30, 2009 to 8.1% for the three months ended June 30, 2010, offset by a decline in overall market volume as measured by FINRA TRACE. Estimated FINRA TRACE U.S. high-grade volume decreased by 10.8% from $807.1 billion for the three months ended June 30, 2009 to $720.3 billion for the three months ended June 30, 2010. Eurobond volumes decreased by 3.3% for the three months ended June 30, 2010 compared to the three months ended June 30, 2009. We believe that overall Eurobond volumes were negatively impacted by issues related to the regional sovereign debt market. Other volume increased by 73.9% for the three months ended June 30, 2010 compared to the three months ended June 30, 2009, primarily due to higher agency and emerging markets volumes.

Our average variable transaction fee per million for the three months ended June 30, 2010 and 2009 was as follows:

	Three Months Ended June 30,	
	2010	2009
Average Variable Transaction Fee Per Million		
U.S. high-grade	$ 189	$ 163
Eurobond	$ 130	$ 131
Other	$ 166	$ 210

All Products	$ 175	$ 168

The U.S. high-grade average variable transaction fee per million increased from $163 for the three months ended June 30, 2009 to $189 for the three months ended June 30, 2010, primarily due to the introduction of new dealers on the platform that pay higher variable fees per million. The Eurobond average variable transaction fee per million decreased from $131 for the three months ended June 30, 2009 to $130 for the three months ended June 30, 2010. In June 2010, we launched a click-to-trade protocol in the European market. In connection with the launch, the Eurobond fee plan was revised. We expect that the Eurobond average variable transaction fee per million under the new fee plan will be approximately $100. Other average variable transaction fee per million decreased from

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$210 for the three months ended June 30, 2009 to $166 for the three months ended June 30, 2010, primarily due to a larger percentage of Other volume in products that carry lower fees per million, principally agency bonds.

Technology Products and Services. Technology products and services revenues increased by $1.2 million or 55.1% to $3.3 million for the three months ended June 30, 2010, from $2.1 million for the three months ended June 30, 2009. The increase was primarily a result of higher technology integration consulting services.

Information and User Access Fees. Information and user access fees increased by $0.2 million or 14.5% to $1.7 million for the three months ended June 30, 2010, from $1.5 million for the three months ended June 30, 2009.

Investment Income. Investment income increased by 34.6% to $0.3 million for the three months ended June 30, 2010, from $0.2 million for the three months ended June 30, 2009.

Other. Other revenues increased by $0.4 million or 230.3% to $0.6 million for the three months ended June 30, 2010, from $0.2 million for the three months ended June 30, 2009. The increase was primarily a result of initial set-up fees from broker-dealer clients.

Expenses

Our expenses for the three months ended June 30, 2010 and 2009, and the resulting dollar and percentage changes were as follows:

	Three Months Ended June 30,					
	2010		2009			
	$	% of Revenues	$	% of Revenues	$ Change	% Change
	($ in thousands)					
Employee compensation and benefits	$ 14,189	40.2%	$ 11,917	46.1%	$ 2,272	19.1%
Depreciation and amortization	1,622	4.6	1,679	6.5	(57)	(3.4)
Technology and communications	2,353	6.7	2,120	8.2	233	11.0
Professional and consulting fees	1,990	5.6	1,613	6.2	377	23.4
Occupancy	707	2.0	693	2.7	14	2.0
Marketing and advertising	759	2.1	708	2.7	51	7.2
General and administrative	1,850	5.2	1,373	5.3	477	34.7
Total expenses	$ 23,470	66.4%	$ 20,103	77.8%	$ 3,367	16.7%

Employee Compensation and Benefits. Employee compensation and benefits increased by $2.3 million or 19.1% to $14.2 million for the three months ended June 30, 2010, from $11.9 million for the three months ended June 30, 2009. This increase was primarily attributable to higher incentive compensation of $1.2 million, salaries of $0.5 million due to increased headcount, and benefits and employment taxes of $0.4 million.

Depreciation and Amortization. Depreciation and amortization decreased by $0.1 million or 3.4% to $1.6 million for the three months ended June 30, 2010, from $1.7 million for the three months ended June 30, 2009. The decrease was primarily attributable to lower amortization of software development costs. For the three months ended June 30, 2010 and 2009, we capitalized $0.9 million and $0.4 million, respectively, of leasehold improvements and equipment purchases and $0.4 million and $0.6 million, respectively, of software development costs. The 2010 leasehold improvement and equipment expenditures included $0.5 million associated with the move of our corporate offices to new premises in New York City in the first quarter of 2010.

Technology and Communications. Technology and communications expenses increased by $0.2 million or 11% to $2.4 million for the three months ended June 30, 2010 from $2.1 million for the three months ended June 30, 2009. The increase was attributable to higher expenses associated with data center hosting and market data.

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Professional and Consulting Fees. Professional and consulting fees increased by $0.4 million or 23.4% to $2.0 million for the three months ended June 30, 2010, from $1.6 million for the three months ended June 30, 2009. The increase was principally due to higher technology consulting costs.

Occupancy. Occupancy costs were $0.7 million for both the three months ended June 30, 2010 and 2009.

Marketing and Advertising. Marketing and advertising expenses increased by 7.2% to $0.8 million for the three months ended June 30, 2010 from $0.7 million for the three months ended June 30, 2009.

General and Administrative. General and administrative expenses increased by $0.5 million or 34.7% to $1.9 million for the three months ended June 30, 2010, from $1.4 million for the three months ended June 30, 2009. The increase was primarily due to higher franchise taxes and registration fees, partially offset by a decline in the charge for doubtful accounts.

Provision for Income Tax. For the three months ended June 30, 2010 and 2009, we recorded an income tax provision of $4.7 million and $2.5 million, respectively. The increase in the tax provision was primarily attributable to the $6.1 million increase in pre-tax income for the period. With the exception of the payment of certain foreign and state and local taxes, the provision for income taxes was a non-cash expense since we had available net operating loss carryforwards and tax credits to offset the cash payment of taxes.

Our consolidated effective tax rate for the three months ended June 30, 2010 was 39.5%, compared to 44.4% for the three months ended June 30, 2009. The decrease in the effective tax rate is principally due to a refinement in our state and local tax apportionment methodology, which resulted in a lower projected state income tax rate. Our consolidated effective tax rate can vary from period to period depending on, among other factors, the geographic and business mix of our earnings and changes in tax legislation and tax rates. Due to our net deferred tax asset balance, a decrease in tax rates results in a reduction in our deferred tax balance and an increase in tax expense in the period in which the change occurs.

Six Months Ended June 30, 2010 Compared to Six Months Ended June 30, 2009

Overview

Total revenues increased by $19.7 million or 39.1% to $70.2 million for the six months ended June 30, 2010, from $50.5 million for the six months ended June 30, 2009. This increase in total revenues was primarily due to increases in commissions of $16.5 million and technology products and services revenues of $2.3 million.

Total expenses increased by $7.3 million or 18.2% to $47.3 million for the six months ended June 30, 2010, from $40.0 million for the six months ended June 30, 2009. The increase was primarily due to higher employee compensation and benefits of $4.8 million and general and administrative expense of $1.4 million.

Income before taxes increased by $12.5 million or 119.2% to $22.9 million for the six months ended June 30, 2010, from $10.5 million for the six months ended June 30, 2009. Net income increased by $7.8 million or 130.2% to $13.9 million for the six months ended June 30, 2010, from $6.0 million for six months ended June 30, 2009.

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Revenues

Our revenues for the six months ended June 30, 2010 and 2009, and the resulting dollar and percentage changes, were as follows:

	Six Months Ended June 30,					
	2010		2009			
	$	% of Revenues	$	% of Revenues	$ Change	% Change
	($ in thousands)					
Commissions	$ 58,767	83.7%	$ 42,276	83.8%	$ 16,491	39.0%
Technology products and services	6,415	9.1	4,119	8.2	2,296	55.7
Information and user access fees	3,356	4.8	3,159	6.3	197	6.2
Investment income	606	0.9	566	1.1	40	7.1
Other	1,066	1.5	351	0.7	715	203.7
Total revenues	$ 70,210	100.0%	$ 50,471	100.0%	$ 19,739	39.1%

Commissions. Our commission revenues for the six months ended June 30, 2010 and 2009, and the resulting dollar and percentage changes, were as follows:

	Six Months Ended June 30,			
	2010	2009	$ Change	% Change
	($ in thousands)			
Distribution fees				
U.S. high-grade	$ 18,238	$ 14,710	$ 3,528	24.0%
Eurobond	6,282	5,958	324	5.4
Total distribution fees	24,520	20,668	3,852	18.6
Variable transaction fees				
U.S. high-grade	21,787	12,613	9,174	72.7
Eurobond	3,879	2,896	983	33.9
Other	8,581	6,099	2,482	40.7
Total variable transaction fees	34,247	21,608	12,639	58.5
Total commissions	$ 58,767	$ 42,276	$ 16,491	39.0%

The $3.9 million increase in distribution fees for the six months ended June 30, 2010 compared to the six months ended June 30, 2009 is due principally to the additional U.S. broker-dealer market makers on the platform.

The following table shows the extent to which the increase in commissions for the six months ended June 30, 2010 was attributable to changes in transaction volumes, variable transaction fees per million and monthly distribution fees:

	Change from Six Months Ended June 30, 2009			
	U.S. High-Grade	Eurobond	Other	Total
	(In thousands)			

Volume increase	$ 7,582	$ 845	$ 3,911	$ 12,338
Variable transaction fee per million increase (decrease)	1,592	138	(1,429)	301
Monthly distribution fees increase	3,528	324		3,852
Total commissions increase	$ 12,702	$ 1,307	$ 2,482	$ 16,491

Our trading volumes for the six months ended June 30, 2010 and 2009 were as follows:

	Six Months Ended June 30,			
	2010	2009	$ Change	% Change
Trading Volume Data (in millions)				
U.S. high-grade	$ 119,681	$ 74,749	$ 44,932	60.1%
Eurobond	28,758	22,261	6,497	29.2
Other	49,044	29,882	19,162	64.1
Total	$ 197,483	$ 126,892	$ 70,591	55.6%
Number of U.S. Trading Days	124	124		
Number of U.K. Trading Days	124	124		

For volume reporting purposes, transactions in foreign currencies are converted to U.S. dollars at average monthly rates. The 60.1% increase in U.S. high-grade volume was principally due to an increase in the Company s estimated market share of total U.S. high-grade corporate bond volume as reported by FINRA TRACE from 5.2% for the six months ended June 30, 2009 to 8.0% for the six months ended June 30, 2010, coupled with an increase in overall market volume as measured by FINRA TRACE. Estimated FINRA TRACE U.S. high-grade volume increased by 3.2% from $1,451.4 billion for the six months ended June 30, 2009 to $1,498.3 billion for the six months ended June 30, 2010. Eurobond volumes increased by 29.2% for the six months ended June 30, 2010 compared to the six months ended June 30, 2009. Other volume increased by 64.1% for the six months ended June 30, 2010 compared to the six months ended June 30, 2009, primarily due to agency and emerging markets volumes.

Our average variable transaction fee per million for the six months ended June 30, 2010 and 2009 was as follows:

	Six Months Ended June 30,	
	2010	2009
Average Variable Transaction Fee Per Million		
U.S. high-grade	$ 182	$ 169
Eurobond	$ 135	$ 130
Other	$ 175	$ 204
All Products	$ 173	$ 170

The U.S. high-grade average variable transaction fee per million increased from $169 for the six months ended June 30, 2009 to $182 for the six months ended June 30, 2010, primarily due to the introduction of new dealers on the platform that pay higher variable fees per million. The Eurobond average variable transaction fee per million increased from $130 for the six months ended June 30, 2009 to $135 for the six months ended June 30, 2010. In June 2010, we launched a click-to-trade protocol in the European market. In connection with the launch, the Eurobond fee plan was revised. We expect that the Eurobond average variable transaction fee per million under the new fee plan will be approximately $100. Other average variable transaction fee per million decreased from $204 for the six months ended June 30, 2009 to $175 for the six months ended June 30, 2010, primarily due to a larger percentage of Other volume in products that carry lower fees per million, principally agency bonds.

Technology Products and Services. Technology products and services revenues increased by $2.3 million or 55.7% to $6.4 million for the six months ended June 30, 2010, from $4.1 million for the six months ended June 30, 2009. The increase was primarily a result of higher technology integration consulting services.

Information and User Access Fees. Information and user access fees increased by 6.2% to $3.4 million for the six months ended June 30, 2010, from $3.2 million for the six months ended June 30, 2009.

Investment Income. Investment income was $0.6 million for both the six months ended June 30, 2010 and 2009.

Other. Other revenues increased by $0.7 million or 203.7% to $1.1 million for the six months ended June 30, 2010, from $0.4 million for the six months ended June 30, 2009. The increase was primarily a result of initial set-up fees from broker-dealer clients.

Expenses

Our expenses for the six months ended June 30, 2010 and 2009, and the resulting dollar and percentage changes, were as follows:

	Six Months Ended June 30,					
	2010		2009			
	$	% of Revenues	$	% of Revenues	$ Change	% Change
	($ in thousands)					
Employee compensation and benefits	$ 28,122	40.1%	$ 23,359	46.3%	$ 4,763	20.4%
Depreciation and amortization	3,238	4.6	3,470	6.9	(232)	(6.7)
Technology and communications	4,770	6.8	4,362	8.6	408	9.4
Professional and consulting fees	4,128	5.9	3,492	6.9	636	18.2
Occupancy	1,645	2.3	1,369	2.7	276	20.2
Marketing and advertising	1,387	2.0	1,353	2.7	34	2.5
General and administrative	3,979	5.7	2,599	5.1	1,380	53.1
Total expenses	$ 47,269	67.3%	$ 40,004	79.3%	$ 7,265	18.2%

Employee Compensation and Benefits. Employee compensation and benefits increased by $4.8 million or 20.4% to $28.1 million for the six months ended June 30, 2010, from $23.4 million for the six months ended June 30, 2009. This increase was primarily attributable to higher incentive compensation of $2.6 million, salaries of $1.1 million due to increased headcount, and benefits and employment taxes of $0.8 million.

Depreciation and Amortization. Depreciation and amortization decreased by $0.2 million or 6.7% to $3.2 million for the six months ended June 30, 2010, from $3.5 million for the six months ended June 30, 2009. The decrease was primarily attributable to lower amortization of software development costs. For the six months ended June 30, 2010 and 2009, we capitalized $3.8 million and $1.6 million, respectively, of leasehold improvements and equipment purchases and $0.8 million and $1.0 million, respectively, of software development costs. The 2010 leasehold improvement and equipment expenditures included $2.8 million associated with the move of our corporate offices to new premises in New York City in the first quarter of 2010.

Technology and Communications. Technology and communications expenses increased by $0.4 million or 9.4% to $4.8 million for the six months ended June 30, 2010 from $4.4 million for the six months ended June 30, 2009. The increase was attributable to higher license and maintenance support expense.

Professional and Consulting Fees. Professional and consulting fees increased by $0.6 million or 18.2% to $4.1 million for the six months ended June 30, 2010, from $3.5 million for the six months ended June 30, 2009. The increase was principally due to higher technology consulting and recruiting costs.

Occupancy. Occupancy costs increased by $0.3 million or 20.2% to $1.6 million for the six months ended June 30, 2010 from $1.4 million for the six months ended June 30, 2009. The increase was principally due to a two-month overlap in rental costs for both our old and new premises leased in New York City.

Marketing and Advertising. Marketing and advertising expenses were $1.4 million for both the six months ended June 30, 2010 and 2009.

General and Administrative. General and administrative expenses increased by $1.4 million or 53.1% to $4.0 million for the six months ended June 30, 2010, from $2.6 million for the six months ended June 30, 2009. The increase was primarily due to higher charitable contributions, general travel and entertainment expense, franchise taxes and registration fees.

Provision for Income Tax. For the six months ended June 30, 2010 and 2009, we recorded an income tax provision of $9.1 million and $4.4 million, respectively. The increase in the tax provision was primarily attributable to the $12.5 million increase in pre-tax income for the period. With the exception of the payment of certain foreign and state and local taxes, the provision for income taxes was a non-cash expense since we had available net operating loss carryforwards and tax credits to offset the cash payment of taxes.

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Our consolidated effective tax rate for the six months ended June 30, 2010 was 39.5%, compared to 42.4% for the six months ended June 30, 2009. The decrease in the effective tax rate is principally due to a refinement in our state and local tax apportionment methodology, which resulted in a lower projected state income tax rate. Our consolidated effective tax rate can vary from period to period depending on, among other factors, the geographic and business mix of our earnings and changes in tax legislation and tax rates. Due to our net deferred tax asset balance, a decrease in tax rates results in a reduction in our deferred tax balance and an increase in tax expense in the period in which the change occurs.

Liquidity and Capital Resources

During the past three years, we have met our cash needs through cash on hand, internally generated funds and the issuance of Series B Preferred Stock. Cash and cash equivalents and securities available-for-sale totaled $187.6 million at June 30, 2010. Other than equipment-related capital lease obligations amounting to $1.1 million as of June 30, 2010, we have no long-term or short-term debt and do not maintain bank lines of credit.

Our cash flows were as follows:

	Six Months Ended June 30,	
	2010	2009
	(In thousands)	
Net cash provided by operating activities	$ 22,557	$ 5,887
Net cash used in investing activities	(6,717)	(24,149)
Net cash used in financing activities	(5,145)	(75)
Effect of exchange rate changes on cash	(510)	(249)
Net increase (decrease) for the period	$ 10,185	$ (18,586)

We define free cash flow as cash flow from operating activities less expenditures for furniture, equipment and leasehold improvements and capitalized software development costs. For the 12 months ended June 30, 2010 and 2009, free cash flow was $50.5 million and $20.7 million, respectively.

Net cash provided by operating activities was $22.6 million for the six months ended June 30, 2010 compared to $5.9 million for the six months ended June 30, 2009. The $16.7 million increase in net cash provided by operating activities was primarily due to an increase in net income of $7.8 million, higher non-cash deferred income taxes of $3.0 million and a decrease in cash used for working capital of $5.8 million. During the six months ended June 30, 2010, annual bonus payments were $14.1 million compared to $9.5 million for the six months ended June 30, 2009.

Net cash used in investing activities was $6.7 million for the six months ended June 30, 2010 compared to $24.1 million for the six months ended June 30, 2009. Net purchases of securities available-for-sale were $2.1 million for the six months ended June 30, 2010 compared to $20.6 million for the six months ended June 30, 2009. Capital expenditures were $4.6 million and $1.9 million for the six months ended June 30, 2010 and 2009, respectively. Leasehold improvements and equipment expenditures in 2010 included $2.8 million associated with the move of our corporate offices to new premises in New York City in the first quarter of 2010. During the six months ended June 30, 2009, we made a $1.4 million earn-out payment related to the acquisition of Greenline.

Net cash used in financing activities was $5.1 million for the six months ended June 30, 2010 compared to $0.1 million for the six months ended June 30, 2009. The increase in net cash used in financing activities was principally due to cash dividends paid in 2010 on common stock and Series B preferred stock of $5.4 million.

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

Other Factors Influencing Liquidity and Capital Resources

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

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

We have three regulated subsidiaries, MarketAxess Corporation, MarketAxess Europe Limited and MarketAxess Canada Ltd. MarketAxess Corporation is a registered broker-dealer in the U.S., MarketAxess Europe Limited is a registered multilateral trading facility in the U.K. and MarketAxess Canada Ltd. is a registered Alternative Trading System in the Province of Ontario. As such, they are subject to minimum regulatory capital requirements imposed by their respective market regulators that are intended to ensure general financial soundness and liquidity based on certain minimum capital requirements. The relevant regulations prohibit a registrant from repaying borrowings from its parent or affiliates, paying cash dividends, making loans to its parent or affiliates or otherwise entering into transactions that result in a significant reduction in its regulatory net capital position without prior notification to or approval from its principal regulator. The capital structures of our subsidiaries are designed to provide each with capital and liquidity consistent with its business and regulatory requirements. The following table sets forth the capital requirements, as defined, that the Company s subsidiaries were required to maintain as of June 30, 2010:

	MarketAxess Corporation	MarketAxess Europe Limited	MarketAxess Canada Limited
		(In thousands)	
Net capital	$ 49,571	$ 23,960	$ 411
Minimum net capital required	1,059	3,575	259
Excess net capital	$ 48,512	$ 20,385	$ 152

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 or U.S. government securities. As of June 30, 2010, the collateral deposits included in securities and cash provided as collateral in the Consolidated Statements of Financial Condition was $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 June 30, 2010, 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.

In June 2010, our Board of Directors authorized a share repurchase program for up to $30.0 million of our common stock. We may repurchase the shares in the open market or privately negotiated transactions, at times and prices considered appropriate by us depending upon prevailing market conditions. Shares repurchased under the program will be held in treasury for future use. Through June 30, 2010, no shares had been repurchased under the program.

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Prior to 2009, we retained all earnings for investment in our business. In October 2009, our Board of Directors approved a regular quarterly dividend. A quarterly cash dividend of $0.07 per share will be paid on August 25, 2010 to stockholders of record as of the close of business on August 11, 2010. We expect the total amount payable to be approximately $2.7 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 six months ended June 30, 2010.

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 June 30, 2010, we had a $74.1 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 short-term fixed-income securities in which we invest. As of June 30, 2010, our cash and cash equivalents and securities available-for-sale amounted to $187.6 million and were primarily in money market instruments, U.S. government obligations and municipal securities. We do not maintain an inventory of bonds that are traded on our platform.

Derivative Risk

Our limited derivative risk stems from our activities in the foreign currency forward contract market. We use this market to mitigate our U.S. dollar versus Pound Sterling exposure that arises from the activities of our U.K. subsidiary. As of June 30, 2010, the notional value of our foreign currency forward contract was $26.1 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. The policies and procedures we use to manage this credit risk are new and untested. There can be no assurance that these policies and procedures will effectively mitigate our exposure to credit risk.

Item 4. *Controls and Procedures*

(a) *Evaluation of Disclosure Controls and Procedures.* Our management, including the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as that term is defined in Rule 13a-15(e) and Rule 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act), as of June 30, 2010. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures are effective to ensure that information required to be disclosed by MarketAxess in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms, and to ensure that information is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

(b) *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 June 30, 2010 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.

PART II Other Information

Item 1. ***Legal Proceedings***

In January 2007, a former employee of MarketAxess Corporation commenced an arbitration proceeding before FINRA arising out of the May 2006 termination of such individual s employment with MarketAxess Corporation. This individual subsequently amended his statement of claim to add MarketAxess Holdings Inc. as a party to the arbitration proceeding. FINRA consolidated all of the former employee s claims into a single proceeding and, by an award dated July 12, 2010, the FINRA arbitration panel denied the former employee s claims, totaling approximately $0.9 million, in their entirety. The former employee s right to appeal the panel s decision expires in October 2010.

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

Risks that could have a negative impact on our business, results of operations and financial condition include: the level and intensity of competition in the fixed-income electronic trading industry and the pricing pressures that may result; the variability of our growth rate; the rapidly evolving nature of the electronic financial services industry; the level of trading volume transacted on the MarketAxess platform; potential fluctuations in our operating results, which may cause our stock price to decline; the absolute level and direction of interest rates and the corresponding volatility in the corporate fixed-income market; our ability to develop new products and offerings and the market s acceptance of those products; our exposure to risk 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 and institutional investor clients; technology failures, security breaches or rapid technology changes that may harm our business; our ability to enter into strategic alliances and to acquire other businesses and successfully integrate them with our business; extensive government regulation; continuing international expansion that may present economic and regulatory challenges; and our future capital needs and our ability to obtain capital when needed. This list is intended to identify only certain of the principal factors that could have a material adverse impact on our business, results of operations and financial condition. A more detailed description of each of these and other important risk factors can be found under the caption Risk Factors in our most recent Form 10-K for the year ended December 31, 2009. 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.

Issuer Purchases of Equity Securities

During the quarter ended June 30, 2010, 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)
April 1, 2010 April 30, 2010	3,693	$ 3.56		$
May 1, 2010 May 31, 2010				
June 1, 2010 June 30, 2010				30,000
	3,693	$ 3.56		

In June 2010, our Board of Directors authorized a share repurchase program for up to $30.0 million of our common stock. We may repurchase the shares in the open market or privately negotiated transactions, at times and prices considered appropriate by us depending upon prevailing market conditions. Shares repurchased under the program will be held in treasury for future use. Through June 30, 2010, no shares had been repurchased under the program.

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During the six months ended June 30, 2010, a total of 844 shares were surrendered by employees to us to satisfy employee withholding tax obligations upon the vesting of restricted shares and 2,849 shares of unvested restricted shares were repurchased upon the termination of employment.

Item 3. ***Defaults upon Senior Securities***

None.

Item 4. ***(Removed and Reserved)***

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

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SIGNATURES

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

	MARKETAXESS HOLDINGS INC.
Date: July 30, 2010	By: /s/ RICHARD M. MCVEY Richard M. McVey Chief Executive Officer (principal executive officer)
Date: July 30, 2010	By: /s/ ANTONIO L. DELISE Antonio L. DeLise Chief Financial Officer (principal financial and accounting officer)