MARKETAXESS HOLDINGS INC
Form 10-Q
July 30, 2009

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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, 2009

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.)*
140 Broadway, 42nd Floor New York, New York	**10005**
(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 30, 2009, the number of shares of the Registrant s voting common stock outstanding was 31,746,422 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, 2009
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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, 2009	As of December 31, 2008
	(In thousands, except share and per share amounts)	
ASSETS		
Cash and cash equivalents	$ 88,737	$ 107,323
Securities available-for-sale	56,238	35,227
Securities and cash provided as collateral	4,570	4,316
Accounts receivable, including receivables from related parties of $3,377 and $1,930, respectively, net of allowance of $1,353 and $1,012 as of June 30, 2009 and December 31, 2008, respectively	21,685	13,283
Furniture, equipment and leasehold improvements, net of accumulated depreciation and amortization	3,897	3,369
Software development costs, net of accumulated amortization	3,972	4,521
Goodwill and intangible assets, net of accumulated amortization	38,314	39,546
Prepaid expenses and other assets	2,631	3,177
Deferred tax assets, net	32,051	35,666
Total assets	$ 252,095	$ 246,428
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities		
Accrued employee compensation	$ 6,228	$ 10,439
Deferred revenue	2,091	2,303
Accounts payable, accrued expenses and other liabilities, including payables to related parties of $12 and $11 as of June 30, 2009 and December 31, 2008, respectively	8,676	8,878
Total liabilities	16,995	21,620
Commitments and Contingencies (Note 14)		
Series B Preferred Stock, $0.001 par value, 35,000 shares authorized, issued and outstanding as of June 30, 2009 and December 31, 2008, 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, 2009 and December 31, 2008		
Series A Preferred Stock, $0.001 par value, 110,000 shares authorized, no shares issued and outstanding as of June 30, 2009 and December 31, 2008		

Common stock voting, $0.003 par value, 110,000,000 shares authorized, 34,613,947 shares and 33,971,309 shares issued as of June 30, 2009 and December 31, 2008, respectively	104	102
Common stock non-voting, $0.003 par value, 10,000,000 shares authorized, 2,585,654 shares issued and outstanding as of June 30, 2009 and December 31, 2008	9	9
Additional paid-in capital	309,559	305,508
Receivable for common stock subscribed	(839)	(951)
Treasury stock Common stock voting, at cost, 2,864,120 shares as of June 30, 2009 and December 31, 2008	(40,000)	(40,000)
Accumulated deficit	(62,829)	(68,855)
Accumulated other comprehensive loss	(1,219)	(1,320)
Total stockholders equity	204,785	194,493
Total liabilities and stockholders equity	$ 252,095	$ 246,428

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,	
	2009	**2008**	**2009**	**2008**
	(In thousands, except share and per share amounts)			
Revenues				
Commissions				
U.S. high-grade, including $2,038, $2,137, $4,024 and $4,057 from related parties for the three and six months ended June 30, 2009 and 2008, respectively	$ 13,808	$ 12,554	$ 27,323	$ 24,956
Eurobond, including $933, $873, $1,715 and $1,678 from related parties for the three and six months ended June 30, 2009 and 2008, respectively	4,712	5,120	8,854	9,709
Other, including $378, $437, $680 and $866 from related parties for the three and six months ended June 30, 2009 and 2008, respectively	3,310	2,464	6,099	4,768
Total commissions	21,830	20,138	42,276	39,433
Technology products and services, including $10, $7, $19 and $22 from related parties for the three and six months ended June 30, 2009 and 2008, respectively	2,096	2,676	4,119	3,443
Information and user access fees, including $64, $73, $125 and $126 from related parties for the three and six months ended June 30, 2009 and 2008, respectively	1,504	1,442	3,159	2,923
Investment income, including $58, $209, $148 and $476 from related parties for the three and six months ended June 30, 2009 and 2008, respectively	234	761	566	1,752
Other, including $38, $45, $80 and $87 from related parties for the three and six months ended June 30, 2009 and 2008, respectively	175	620	351	1,025
Total revenues	25,839	25,637	50,471	48,576
Expenses				
Employee compensation and benefits	11,917	11,576	23,359	22,594
Depreciation and amortization	1,679	1,816	3,470	3,596
Technology and communications	2,120	2,048	4,362	4,153
Professional and consulting fees	1,613	2,521	3,492	4,674
Occupancy	693	739	1,369	1,506

Marketing and advertising		708		685		1,353		1,369
General and administrative, including $31, $11, $49 and $18 from related parties for the three and six months ended June 30, 2009 and 2008, respectively		1,373		1,493		2,599		2,960
Total expenses		20,103		20,878		40,004		40,852
Income before income taxes		5,736		4,759		10,467		7,724
Provision for income taxes		2,549		1,911		4,441		3,280
Net income	$	3,187	$	2,848	$	6,026	$	4,444
Net income per common share								
Basic	$	0.09	$	0.08	$	0.16	$	0.13
Diluted	$	0.08	$	0.08	$	0.16	$	0.13
Weighted average shares used to compute net income per common share								
Basic		33,255,901		32,931,838		33,219,688		32,672,484
Diluted		37,853,809		34,758,642		37,660,205		34,064,775

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, 2009
(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, 2008	$ 102	$ 9	$ 305,508	$ (951)	$ (40,000)	$ (68,855)	$ (1,320)	$ 194,493
Comprehensive income:								
Net income						6,026		6,026
Cumulative translation adjustment and foreign currency exchange hedge, net of tax							(132)	(132)
Unrealized net gain on securities available-for-sale, net of tax							233	233
Total comprehensive income								6,127
Stock-based compensation			4,152					4,152
Exercise of stock options and grants of restricted stock, net of withholding tax on stock vesting	2		233					235
Repayment of promissory notes				112				112
Decrement in windfall tax benefits from stock-based compensation			(334)					(334)
Balance at June 30, 2009	$ 104	$ 9	$ 309,559	$ (839)	$ (40,000)	$ (62,829)	$ (1,219)	$ 204,785

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, 2009	Six Months Ended June 30, 2008
	(In thousands)	
Cash flows from operating activities		
Net income	$ 6,026	$ 4,444
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,470	3,596
Stock-based compensation expense	4,152	3,511
Deferred taxes	4,196	3,382
Provision for bad debts	444	571
Changes in operating assets and liabilities, net of business acquired:		
(Increase) decrease in accounts receivable, including an (increase) of ($1,447) and a decrease of $2,569 from related parties for the six months ended June 30, 2009 and 2008, respectively	(8,846)	1,320
Decrease in prepaid expenses and other assets	546	208
(Decrease) in accrued employee compensation	(4,211)	(8,716)
(Decrease) increase in deferred revenue	(212)	82
Increase in accounts payable, accrued expenses and other liabilities, including an increase of $1 and a (decrease) of ($167) to related parties for the six months ended June 30, 2009 and 2008, respectively	322	523
Net cash provided by operating activities	5,887	8,921
Cash flows from investing activities		
Acquisition of businesses, net of cash acquired (Note 3)	(1,368)	(35,233)
Securities available-for-sale:		
Proceeds from maturities	8,824	32,698
Purchases	(29,428)	(3,633)
Securities and cash provided as collateral	(254)	(19)
Purchases of furniture, equipment and leasehold improvements	(926)	(669)
Capitalization of software development costs	(997)	(1,356)
Net cash (used in) investing activities	(24,149)	(8,212)
Cash flows from financing activities		
Issuance of Series B Preferred Stock and common stock purchase warrants		26,760
Proceeds from exercise of stock options and grants of restricted stock, net of withholding tax	235	(453)
Decrement in windfall tax benefits from stock-based compensation	(334)	(213)
Purchase of treasury stock common stock voting		(2,773)
Other	24	43
Net cash (used in) provided by financing activities	(75)	23,364
Effect of exchange rate changes on cash	(249)	(528)

Cash and cash equivalents		
Net (decrease) increase for the period	(18,586)	23,545
Beginning of year	107,323	72,711
End of period	$ 88,737	$ 96,256
Supplemental cash flow information:		
Cash paid during the year:		
Income taxes paid (refunded)	$ (100)	$ 35
Non-cash activity:		
Issuance of common stock in connection with business acquisition	$	$ 5,775
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 certain other types of fixed-income securities through which the Company s institutional investor clients can access the liquidity provided by its broker-dealer clients. The Company s multi-dealer trading platform allows its institutional investor clients to simultaneously request competitive, executable bids or offers from multiple broker-dealers, and to execute trades with the broker-dealer of their choice. The Company offers its clients the ability to trade U.S. high-grade corporate bonds, European high-grade corporate bonds, credit default swaps, agencies, high yield and emerging markets bonds. The Company s DealerAxess® trading service allows dealers to trade fixed-income securities and credit default swaps with each other on its platform. The Company executes certain bond transactions between and among institutional investor and broker-dealer clients on a riskless principal basis by serving as counterparty to both the buyer and the seller in matching back-to-back trades, which then settle through a third-party clearing organization. Through its Corporate BondTicker service, the Company provides fixed-income market data, analytics and compliance tools that help its clients make trading decisions. In addition, the Company provides FIX (Financial Information eXchange) message management tools, connectivity solutions and ancillary technology services that facilitate the electronic communication of order information between trading counterparties.

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

2. Significant Accounting Policies

Basis of Presentation

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

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

Cash and Cash Equivalents

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

Securities Available-for-Sale

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

The Company assesses whether an other-than-temporary impairment loss on the investments has occurred due to declines in fair value or other market conditions. Declines in fair values that are considered other-than-temporary are recorded as charges in the Consolidated Statements of Operations. No charges for other-than-temporary declines were recorded during 2009 and 2008.

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

Securities and Cash Provided as Collateral

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

Allowance for Doubtful Accounts

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

Depreciation and Amortization

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

Software Development Costs

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

Foreign Currency Translation and Forward Contracts

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

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

Revenue Recognition

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

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 recognizes revenues from technology software licenses, maintenance and support services (referred to as post-contract technical support or PCS) and professional consulting services in accordance with the

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

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

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

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

Revenues from contracts for technology integration consulting services are recognized on the percentage-of-completion method in accordance with SOP 81-1. Percentage-of-completion accounting involves calculating the percentage of services provided during the reporting period compared to the total estimated services to be provided over the duration of the contract. If estimates indicate that a contract loss will occur, a loss provision is recorded in the period in which the loss first becomes probable and reasonably estimable. Contract losses are determined to be the amount by which the estimated direct and indirect costs of the contract exceed the estimated total revenues that will be generated by the contract. There were no contract loss provisions recorded as of June 30, 2009 and December 31, 2008. Revenues recognized in excess of billings are recorded as unbilled services. Billings in excess of revenues recognized are recorded as deferred revenues until revenue recognition criteria are met.

Stock-Based Compensation

The Company measures and recognizes compensation expense for all share-based payment awards in accordance with SFAS No. 123 (revised 2004), Share-Based Payment (SFAS 123R). This statement requires that compensation expense for all share-based awards be recognized based on their estimated fair values measured as of the grant date. These costs are recognized as an expense in the Consolidated Statements of Operations over the requisite service period, which is typically the vesting period, with an offsetting increase to additional paid-in capital.

Income Taxes

Income taxes are accounted for using the asset and liability method in accordance with SFAS No. 109, Accounting for Income Taxes (SFAS 109). Deferred income taxes reflect the net tax effects of temporary differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when such differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recognized against deferred tax assets if it is more likely than not that such assets will not be realized in future years. The Company recognizes interest and penalties related to unrecognized tax benefits in general and administrative expenses in the Consolidated Statements of Operations.

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

Business Combinations, Goodwill and Intangible Assets

Business acquisitions were completed prior to December 31, 2008 and are accounted for under the purchase method of accounting in accordance with SFAS No. 141, Business Combinations. The total cost of an acquisition is allocated to the underlying net assets based on their respective estimated fair values. The excess of the purchase price over the estimated fair values of the net assets acquired is recorded as goodwill. Determining the fair value of certain assets acquired and liabilities assumed is judgmental in nature and often involves the use of significant estimates and assumptions, including assumptions with respect to future cash flows, discount rates, growth rates and asset lives.

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

Earnings Per Share

Earnings per share (EPS) is calculated in accordance with SFAS No. 128, Earnings Per Share and EITF 03-6, Participating Securities and the Two-Class Method under FASB Statement No. 128 (EITF 03-6). Basic 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, under EITF 03-6, the Series B Preferred Stock is considered a participating security requiring the use of the two-class method for the computation of basic EPS.

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

Use of Estimates

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

Recent Accounting Pronouncements

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

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

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, an Amendment of ARB No. 51 (SFAS 160). SFAS 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 is effective for fiscal years beginning after December 15, 2008. The adoption of SFAS 160 had no material effect on the Consolidated Statements of Financial Condition and Consolidated Statements of Operations.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities An Amendment of FASB Statement No. 133 (SFAS 161). SFAS 161 expands the disclosure requirements for derivative instruments and hedging activities. SFAS 161 is effective for fiscal years beginning after November 15, 2008. The adoption of SFAS 161 had no material effect on the Consolidated Statements of Financial Condition and Consolidated Statements of Operations.

In April 2009, the FASB issued FASB Staff Position FAS 107-1 and APB Opinion No. 28-1, Interim Disclosures about Fair Value of Financial Instruments (FSP FAS 107-1 and APB 28-1). FSP FAS 107-1 and APB 28-1 amends SFAS No. 107, Disclosures about Fair Values of Financial Instruments, to require disclosures about fair value of financial instruments in interim financial statements as well as in annual financial statements. FSP FAS 107-1 and APB 28-1 is effective for interim and annual periods ending after June 15, 2009, with early application permitted. The adoption of these statements had no material effect on the Consolidated Statements of Financial Condition and Consolidated Statements of Operations.

In May 2009, the FASB issued SFAS No. 165, Subsequent Events (SFAS 165). SFAS 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. SFAS 165 is effective for interim and annual reporting periods ending after June 15, 2009 and shall be applied prospectively. The adoption of this standard had no material effect on the Consolidated Statements of Financial Condition and Consolidated Statements of Operations.

In June 2009, the FASB issued SFAS No. 168, The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162 (SFAS 168), which establishes the FASB Accounting Standards Codification as the source of authoritative accounting principles recognized by the FASB to be applied in the preparation of financial statements in conformity with generally accepted accounting principles. SFAS 168 explicitly recognizes rules and interpretive releases of the SEC under federal securities laws as authoritative GAAP for SEC registrants. This Statement is effective for interim and annual reporting periods ending after September 15, 2009. The Company does not expect the adoption of this standard will have a material impact on its Consolidated Financial Statements.

Reclassifications

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

3. Acquisition

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

The aggregate consideration for the Greenline acquisition was $41.1 million, comprised of $34.7 million in cash, 725,923 shares of common stock valued at $5.8 million and $0.6 million of acquisition-related costs. In addition, the sellers were eligible to receive up to an aggregate of $3.0 million in cash, subject to Greenline attaining certain earn-out targets in 2008 and 2009. A total of $1.4 million was paid to the sellers in March 2009 based on the 2008 earn-out target, bringing the aggregate consideration to $42.4 million. A total of $2.0 million of the purchase price, which had been deposited into escrow to satisfy potential indemnity claims, was

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distributed to the sellers in March 2009. The shares of common stock to be issued to each selling shareholder of Greenline are held by the Company and were or will be released in two equal installments on December 20, 2008 and December 20, 2009, respectively. The value ascribed to the shares was discounted from the market value to reflect the non-marketability of such shares during the restriction period. The purchase price allocation is as follows (in thousands):

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

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

The following unaudited pro forma consolidated financial information reflects the results of operations of the Company for the six months ended June 30, 2008, as if the acquisition of Greenline had occurred as of the beginning of the period presented, after giving effect to certain purchase accounting adjustments. These pro forma results are not necessarily indicative of what the Company s operating results would have been had the acquisition actually taken place as of the beginning of the period presented. The pro forma financial information includes the amortization charges from acquired intangible assets, adjustments to interest income and related tax effects (in thousands, except per share amounts).

	Pro forma Six Months Ended June 30, 2008
Revenues	$ 50,167
Income before income taxes	$ 8,049
Net income	$ 4,650
Basic net income per common share	$ 0.14
Diluted net income per common share	$ 0.14

4. Net Capital Requirements and Customer Protection Requirements

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

	MarketAxess Corporation	MarketAxess Europe Limited	MarketAxess Canada Limited
		(In thousands)	
Net capital	$ 29,950	$ 22,219	$ 382
Minimum net capital required	710	2,836	237
Excess net capital	$ 29,240	$ 19,383	$ 145

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The Company s regulated subsidiaries are subject to U.S., U.K. and Canadian regulations which prohibit repayment of borrowings from the Company or affiliates, paying cash dividends, making loans to the Company or affiliates or otherwise entering into transactions that result in a significant reduction in regulatory net capital or financial resources, respectively, without prior notification to or approval from such regulated entity s principal regulator.

5. Fair Value Measurements

SFAS No. 157, Fair Value Measurements, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It also establishes a three-tiered fair value hierarchy that prioritizes inputs to valuation techniques used in fair value calculations. The three levels of inputs are defined as Level 1 (unadjusted quoted prices for identical assets or liabilities in active markets), Level 2 (inputs that are observable in the marketplace other than those inputs classified in Level 1) and Level 3 (inputs that are unobservable in the marketplace). The Company s financial assets and liabilities measured at fair value on a recurring basis consist of its securities available-for-sale portfolio and one foreign currency forward contract. The following table summarizes the valuation of the Company s assets (liabilities) measured at fair value.

	Level 1	Level 2	Level 3	Total
		(In thousands)		
As of June 30, 2009				
Securities available-for-sale				
Federal agency issues	$ 29,949	$	$	$ 29,949
Municipal securities		24,232		24,232
Corporate bonds		2,057		2,057
Foreign currency forward position		(20)		(20)
	$ 29,949	$ 26,269	$	$ 56,218
As of December 31, 2008				
Securities available-for-sale				
Municipal securities	$	$ 33,177	$	$ 33,177
Corporate bonds		2,050		2,050
Foreign currency forward position		264		264
	$	$ 35,491	$	$ 35,491

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

The Company enters into foreign currency forward contracts with a non-controlling stockholder broker-dealer client to hedge its exposure to variability in foreign currency cash flows resulting from the net investment in its U.K. subsidiary. The Company assesses each foreign currency forward contract to ensure that it is highly effective at reducing the exposure being hedged. The Company designates each foreign currency forward contract as a hedge, assesses the risk management objective and strategy, including identification of the hedging instrument, the hedged item and the risk exposure and how effectiveness is to be assessed prospectively and retrospectively. These hedges are for a one-month period and are used to limit exposure to foreign currency exchange rate fluctuations. The gross and net fair value liability of $20,000 as of June 30, 2009 is included in accounts payable, and the gross and net fair value asset of $0.3 million as of December 31, 2008 is included in accounts receivable, in the Consolidated Statements of

Financial Condition. Gains or losses on foreign currency forward contracts designated as hedges are included in accumulated other comprehensive loss in the Consolidated Statements of Financial Condition. A summary of the foreign currency forward contract is as follows:

	As of	
	June 30, 2009	**December 31, 2008**
	(In thousands)	
Notional value	$ 24,869	$ 20,041
Fair value of notional	24,889	19,777
Gross and net fair value (liability) asset	$ (20)	$ 264

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MARKETAXESS HOLDINGS INC.
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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, 2009				
Federal agency issues	$ 29,587	$ 362	$	$ 29,949
Municipal securities	24,166	67	(1)	24,232
Corporate bonds	2,042	15		2,057
	$ 55,795	$ 444	$ (1)	$ 56,238
As of December 31, 2008				
Municipal securities	$ 33,138	$ 55	$ (16)	$ 33,177
Corporate bonds	2,054		(4)	2,050
	$ 35,192	$ 55	$ (20)	$ 35,227

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

	As of December 31,	
	June 30, 2009	December 31, 2008
	(In thousands)	
Less than one year	$ 22,303	$ 18,702
Due in 1 - 5 years	33,935	16,525
Total securities available-for-sale	$ 56,238	$ 35,227

Proceeds from the maturities and sales of securities available-for-sale during the six months ended June 30, 2009 and 2008 were $8.8 million and $32.7 million, respectively.

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

	Less than Twelve Months		Twelve Months or More		Total	
	Estimated fair value	Gross unrealized losses	Estimated fair value	Gross unrealized losses	Estimated fair value	Gross unrealized losses
			(In thousands)			
As of June 30, 2009						
Federal agency issues	$	$	$	$	$	$
Municipal securities	2,920	(1)			2,920	(1)
Corporate bonds						

Total securities available-for-sale	$ 2,920	$	(1)	$		$		$ 2,920	$	(1)
As of December 31, 2008										
Municipal securities	$ 5,088	$	(10)	$	2,134	$	(6)	$ 7,222	$	(16)
Corporate bonds					2,050		(4)	2,050		(4)
Total securities available-for-sale	$ 5,088	$	(10)	$	4,184	$	(10)	$ 9,272	$	(20)

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

6. Furniture, Equipment and Leasehold Improvements

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

	As of	
	June 30, 2009	December 31, 2008
	(In thousands)	
Computer hardware and related software	$ 13,343	$ 18,015
Office hardware	1,168	3,574
Furniture and fixtures	1,984	1,791
Leasehold improvements	2,128	2,074
Computer hardware under capital lease	1,419	696
Accumulated depreciation and amortization	(16,145)	(22,781)
Total furniture, equipment and leasehold improvements, net	$ 3,897	$ 3,369

7. Software Development Costs

During the six months ended June 30, 2009 and 2008, software development costs totaling $1.0 million and $1.4 million, respectively, were capitalized. Non-capitalized software costs and routine maintenance costs are expensed as incurred and are included in employee compensation and benefits and professional and consulting fees in the Consolidated Statements of Operations. Software development costs, net, are comprised of the following:

	As of	
	June 30, 2009	December 31, 2008
	(In thousands)	
Software development costs	$ 18,416	$ 19,607
Accumulated amortization	(14,444)	(15,086)
Total software development costs, net	$ 3,972	$ 4,521

8. Goodwill and Intangible Assets

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

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

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

	June 30, 2009			December 31, 2008		
	Cost	Accumulated Amortization	Net Carrying Amount	Cost	Accumulated Amortization	Net Carrying Amount
	(In thousands)					
Technology	$ 4,010	$ (1,459)	$ 2,551	$ 4,010	$ (1,110)	$ 2,900
Customer relationships	3,530	(861)	2,669	3,530	(604)	2,926
Non-competition agreements	1,260	(333)	927	1,260	(207)	1,053
Tradenames	590	(207)	383	590	(155)	435
Total	$ 9,390	$ (2,860)	$ 6,530	$ 9,390	$ (2,076)	$ 7,314

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Unaudited (Continued)

Amortization expense associated with identifiable intangible assets was $0.8 million and $0.6 million for the six months ended June 30, 2009 and 2008, respectively. Estimated total amortization expense is $1.6 million for 2009, $1.5 million for 2010 and 2011, $1.4 million for 2012 and $0.5 million for 2013.

9. Income Taxes

The provision for income taxes consists of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(In thousands)			
Current:				
Federal	$	$	$	$
State and local	(12)		(12)	
Foreign	584	58	652	115
Total current provision	572	58	640	115
Deferred:				
Federal	1,350	922	2,266	1,708
State and local	621	343	1,107	723
Foreign	6	588	428	734
Total deferred provision	1,977	1,853	3,801	3,165
Provision for income taxes	$ 2,549	$ 1,911	$ 4,441	$ 3,280

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

	As of	
	June 30, 2009	December 31, 2008
	(In thousands)	
Deferred tax assets and liabilities	$ 32,636	$ 36,233
Valuation allowance	(585)	(567)
Deferred tax assets, net	$ 32,051	$ 35,666

As of June 30, 2009, the Company had deferred tax assets associated with stock-based compensation of approximately $4.9 million. There is a risk that the ultimate tax benefit realized upon the exercise of stock options or vesting of restricted stock could be less than the tax benefit previously recognized and in a manner sufficient to exhaust the additional-paid-in-capital pool determined under SFAS 123R. If this should occur, any excess tax benefit previously recognized would be reversed, resulting in an increase in tax expense. Since the tax benefit to be realized in the future is unknown, it is not currently possible to estimate the impact on the deferred tax balance. As of June 30, 2009, the additional paid-in-capital pool was approximately $2.7 million.

The Company or one of its subsidiaries files U.S. federal, state and foreign income tax returns. No U.S. federal, state or U.K. income tax returns have been subject to audit, with the exception of New York city and state (through

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

As a result of the implementation of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109, effective January 1, 2008, the Company recognized an increase in deferred tax assets of $3.0 million related to previously unrecognized tax benefits, which was accounted for as an increase to additional paid-in capital of $0.3 million and an increase in accrued expenses of $2.7 million. Unrecognized tax benefits as of June 30, 2009 and December 31, 2008 were $2.7 million. If recognized, this entire amount would impact the effective tax rate.

10. Related Parties

The Company generates commissions, technology products and services revenues, information and user access fees, investment income and other income and related accounts receivable balances from Stockholder Broker-Dealer Clients or their affiliates. In addition, a Stockholder Broker-Dealer Client acts in an investment advisory, custodial and cash management capacity for the

MARKETAXESS HOLDINGS INC.
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Company. The Company incurs investment advisory and bank fees in connection with this arrangement. As of the dates and for the periods indicated below, the Company had the following balances and transactions with the Stockholder Broker-Dealer Clients or their affiliates:

	As of June 30, 2009	As of December 31, 2008
	(In thousands)	
Cash and cash equivalents	$88,262	$ 106,649
Securities and cash provided as collateral	4,070	3,816
Accounts receivable	3,377	1,930
Accounts payable	12	11

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(In thousands)			
Commissions	$3,349	$3,446	$6,419	$6,601
Technology products and services	10	7	19	22
Information and user access fees	64	73	125	126
Investment income	58	209	148	476
Other income	38	45	80	87
General and administrative	31	11	49	18

11. Stockholders Equity and Preferred Stock

Common Stock

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

Series B Preferred Stock and Warrants

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

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

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

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

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

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

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

Stockholders Rights Agreement

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

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12. Stock-Based Compensation Plans

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(In thousands)			
Employee:				
Stock options	$ 749	$ 983	$ 1,520	$ 1,908
Restricted stock	1,287	708	2,441	1,400
	2,036	1,691	3,961	3,308
Non-employee directors:				
Stock options	23	25	55	62
Restricted stock	55	56	136	141
	78	81	191	203
Total stock-based compensation	$ 2,114	$ 1,772	$ 4,152	$ 3,511

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, 2009, the Company granted to employees a total of 35,568 options to purchase shares of common stock, 621,918 shares of restricted stock and performance-based shares with an expected pay-out of 206,664 shares of common stock. Based on the Black-Scholes option pricing model, the weighted average fair value for each option granted was $3.45 per share. The fair value of the restricted stock and performance-based share awards was based on a weighted-average grant date fair value per share of $8.06 and $7.94, respectively. As of June 30, 2009, there was $12.9 million of total unrecognized compensation costs related to non-vested awards. That cost is expected to be recognized over a weighted-average period of 1.5 years.

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MARKETAXESS HOLDINGS INC.
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13. Earnings Per Share

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

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
	(In thousands, except share and per share amounts)			
Basic EPS				
Net income	$ 3,187	$ 2,848	$ 6,026	$ 4,444
Amount allocable to common shareholders	90.5%	97.2%	90.5	98.6%
Net income applicable to common stock	$ 2,884	$ 2,769	$ 5,452	$ 4,381
Common stock voting	30,670,247	30,346,184	30,634,034	30,086,830
Common stock non-voting	2,585,654	2,585,654	2,585,654	2,585,654
Basic weighted average shares outstanding	33,255,901	32,931,838	33,219,688	32,672,484
Basic earnings per share	$ 0.09	$ 0.08	$ 0.16	$ 0.13
Diluted EPS				
Net income	$ 3,187	$ 2,848	$ 6,026	$ 4,444
Basic weighted average shares outstanding	33,255,901	32,931,838	33,219,688	32,672,484
Effect of dilutive shares:				
Series B Preferred Stock	3,500,000	933,333	3,500,000	466,667
Stock options and restricted stock	1,097,908	893,471	940,517	925,624
Diluted weighted average shares outstanding	37,853,809	34,758,642	37,660,205	34,064,775
Diluted earnings per share	$ 0.08	$ 0.08	$ 0.16	$ 0.13

Stock options, restricted stock and warrants totaling 4,350,489 shares and 4,954,362 shares for the three months ended June 30, 2009 and 2008, respectively, and 4,571,019 shares and 4,888,822 shares for the six months ended June 30, 2009 and 2008, respectively, were excluded from the computation of diluted earnings per share because their effect would have been antidilutive. The computation of diluted shares can vary among periods due, in part, to the change in the average price of the Company s common stock.

14. Commitments and Contingencies

The Company leases office space and equipment under non-cancelable lease agreements expiring at various dates through 2019. Office space leases are subject to escalation based on certain costs incurred by the landlord. Minimum rental commitments under such operating and capital leases, net of sublease income, as of June 30, 2009 are as follows:

	Operating Leases		Capital Leases
	(In thousands)		
Remainder of 2009	$ 1,168	$	168
2010	1,143		336
2011	720		336
2012	664		336
2013	670		322
2014	678		42
Thereafter	1,619		
Minimum lease payments	6,662		1,540
Less amount representing interest			234
	$ 6,662	$	1,306

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Rental expense of $0.6 million for both the three months ended June 30, 2009 and 2008, and $1.2 million for both the six months ended June 30, 2009 and 2008, is included in occupancy expenses in the Consolidated Statements of Operations. Rental expense has been recorded based on the total minimum lease payments after giving effect to rent abatement and concessions, which are being amortized on a straight-line basis over the life of the lease, and sublease income. In July 2009, the Company entered into two consecutive lease agreements for office space with a February 2022 lease termination date. The aggregate amount of the future lease obligations under these two leases is $17.1 million, which amount is not reflected in the commitment table above.

The Company has entered into a sublease agreement on one of its leased properties through the April 2011 lease termination date. A loss on the sublease was recorded in 2001. The sublease loss accrual as of June 30, 2009 and December 31, 2008 was $0.3 million and $0.5 million, respectively. In May 2008, the Company assigned the lease agreement on another leased property to a third party. The Company is contingently liable should the assignee default on future lease obligations through the November 2015 lease termination date. The aggregate amount of future lease obligations under these two arrangements was $4.5 million as of June 30, 2009.

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

MarketAxess Corporation operates an anonymous matching service for its broker-dealer clients and during 2008 extended its trading counterparty role to include the execution of certain bond transactions between and among institutional investor and broker-dealer clients. MarketAxess Corporation executes all such trades on a riskless principal basis, which are cleared and settled by an independent clearing broker. Under a securities clearing agreement with the independent third party, MarketAxess Corporation maintains a collateral deposit with the clearing broker in the form of cash or U.S. government securities. As of June 30, 2009 and December 31, 2008, the collateral deposit included in securities and cash provided as collateral in the Consolidated Statements of Financial Condition was $0.5 million. MarketAxess Corporation is exposed to credit risk in the event a counterparty does not fulfill its obligation to complete a transaction. Pursuant to the terms of the securities clearing agreement between MarketAxess Corporation and the independent clearing broker, the clearing broker has the right to charge MarketAxess Corporation for losses resulting from a counterparty s failure to fulfill its contractual obligations. The losses are not capped at a maximum amount and apply to all trades executed through the clearing broker. At June 30, 2009, MarketAxess Corporation had not recorded any liabilities with regard to this right.

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

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

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

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

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

15. Comprehensive Income

Comprehensive income was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(In thousands)			
Net income	$ 3,187	$ 2,848	$ 6,026	$ 4,444
Cumulative translation adjustment and foreign currency exchange hedge, net of taxes	(49)	(176)	(132)	(297)
Unrealized net gain (loss) on securities available-for-sale, net of taxes	192	(268)	233	(239)
Total comprehensive income	$ 3,330	$ 2,404	$ 6,127	$ 3,908

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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 one of the leading platforms for the electronic trading of corporate bonds and certain other types of fixed-income securities. Through our platform, institutional investor client firms can access the aggregate liquidity provided by the collective interest of our 60 broker-dealer clients in buying or selling bonds through our platform. Our 685 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 2008 and June 2009) include investment advisers, mutual funds, insurance companies, public and private pension funds, bank portfolios and hedge funds. Our DealerAxess® trading service allows dealers to trade fixed-income securities and credit default swaps with each other on our platform. We execute certain bond transactions between and among institutional investor and broker-dealer clients on a riskless principal basis by serving as counterparty to both the buyer and the seller in matching back-to-back trades, which then settle through a third-party clearing organization. Through our Corporate BondTicker service, we provide fixed-income market data, analytics and compliance tools that help our clients make trading decisions. In addition, we provide FIX (Financial Information eXchange) message management tools, connectivity solutions and ancillary technology services that facilitate the electronic communication of order information between trading counterparties. Our revenues are primarily generated from the trading of U.S. and European high-grade corporate bonds.

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

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

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

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

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

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

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

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

Critical Factors Affecting Our Industry and Our Company

Economic, Political and Market Factors

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

Competitive Landscape

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

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

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

Regulatory Environment

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

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

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

Rapid Technological Changes

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

Trends in Our Business

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

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

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

The U.S. and European credit markets have been through a period of significant turmoil since the third quarter of 2007, especially in short-term funding and floating rate note instruments. A widespread retrenchment in the credit markets resulted in increased credit spreads and significantly higher credit spread volatility across a wide range of asset classes. Credit yield spreads in U.S. corporate bonds, as measured by the Credit Suisse Liquid U.S. Corporate Index (LUCI), increased from 1.0% over U.S Treasuries in June 2007 to a peak of 5.4% in December 2008. Credit spread volatility in U.S. corporate bonds, as measured by the LUCI Index, increased from 0.7% in June 2007 to a peak of 13.2% in January 2009. The credit markets demonstrated significant improvement through the first half of 2009, with net inflows to taxable bond funds and corporate and international bond exchange-traded funds, and an increase in the volume of new issues of high-grade corporate bonds compared to the second half of 2008. Credit yield spreads in U.S. corporate bonds declined to 2.5% over U.S. Treasuries as of June 30, 2009. The average daily trading volume of U.S. high-grade corporate bonds for the quarter ended June 30, 2009, as measured by TRACE, was $12.8 billion, compared to $10.6 billion in the quarter ended March 31, 2009 and $8.0 billion in the quarter ended December 31, 2008. However, the increased demand for corporate bonds during the quarter ended June 30, 2009, combined with primary dealer inventory of corporate bonds (with more than one year to maturity) that was approximately 65% below third quarter 2007 levels, resulted in a scarcity in certain bond issues and difficulty for investors in executing their purchases of these bonds.

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

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

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

Other Revenue

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

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

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

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

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

Expenses

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

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

Depreciation and Amortization. We depreciate our computer hardware and related software, office hardware and furniture and fixtures and amortize our capitalized software development costs on a straight-line basis over a three-year or five-year period. We amortize leasehold improvements on a straight-line basis over the lesser of the life of the improvement or the remaining term of the lease. Intangible assets with definite lives, including purchased technologies, customer relationships and other intangible assets, are amortized over their estimated useful lives, ranging from five to ten years. Intangible assets are assessed for impairment when events or circumstances indicate a possible impairment pursuant to the provisions of SFAS No. 144, Accounting for Long Lived Assets and for Long Lived Assets to be Disposed Of.

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

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

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

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

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

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

Critical Accounting Policies

This Management s Discussion and Analysis of Financial Condition and Results of Operations discusses our Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States, also referred to as U.S. GAAP. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of income and expenses during the reporting periods. We base our estimates and judgments on historical experience and on various other factors that we believe are reasonable under the circumstances. Actual results may differ from these estimates under varying assumptions or conditions. Note 2 of the Notes to our Consolidated Financial Statements includes a summary of the significant accounting policies and methods used in the preparation of our Consolidated Financial Statements. There were no significant changes to our critical accounting policies and estimates during the six months ended June 30, 2009, as compared to those we disclosed in Management s Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K, as amended, for the year ended December 31, 2008.

Segment Results

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

Because of the highly integrated

nature of the financial markets in which we compete and the integration of our worldwide business activities, we believe that results by geographic region, products or types of clients are not necessarily meaningful in understanding our business.

Statistical Information

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Trading Volume Data (in billions)				
U.S. high-grade	$ 37.9	$ 42.7	$ 74.7	$ 81.4
Eurobond	13.2	11.8	22.3	19.9
Other	15.7	15.3	29.9	33.0
Total	$ 66.8	$ 69.8	$ 126.9	$ 134.3
Number of U.S. Trading Days	63	64	124	125
Number of U.K. Trading Days	61	63	124	125

For volume reporting purposes, transactions in foreign currencies are converted to U.S. dollars at average monthly rates. Prior to September 1, 2008, no fees were charged on U.S. high-grade single-dealer inquiries. Such single-dealer inquiry trading volume amounted to $2.5 billion and $4.9 for the three and six months ended June 30, 2008, respectively. Effective September 1, 2008, single-dealer inquiry trades are charged commissions in accordance with the U.S. high-grade corporate bond fee plan. Credit default swap trading volume data are included in Other. Trading volume data related to DealerAxess® bond trading between broker-dealer clients are included in either U.S. high-grade or Other trading volumes, as appropriate.

Our active institutional investor clients (firms that executed at least one trade in U.S. or European fixed-income securities through our electronic trading platform for the twelve months ended June 30, 2009 and 2008, respectively) and our broker-dealer clients as of June 30, 2009 and 2008 were as follows:

	2009	2008
Institutional Investor Clients:		
U.S. products	487	458
European products	198	198
Total	685	656
Broker-Dealer Clients	60	31

Results of Operations

Three Months Ended June 30, 2009 Compared to Three Months Ended June 30, 2008

Overview

Total revenues increased by $0.2 million or 0.8% to $25.8 million for the three months ended June 30, 2009, from $25.6 million for the three months ended June 30, 2008. This increase in total revenues was primarily due to an increase in U.S. high-grade and other commissions of $2.1 million, offset by declines in technology products and services revenues of $0.6 million, investment income of $0.5 million and Eurobond commissions of $0.4 million. A 21.1% change in the average exchange rate of the Pound Sterling compared to the U.S. dollar from the three months ended June 30, 2008 to the three months ended June 30, 2009 had the effect of reducing European revenues by

$1.3 million.

Total expenses decreased by $0.8 million or 3.7% to $20.1 million for the three months ended June 30, 2009, from $20.9 million for the three months ended June 30, 2008. The decrease was primarily due to a decline in professional and consulting expenses of $0.9 million, offset by higher employee compensation and benefits of $0.3 million. The change in the foreign currency rates had the effect of reducing European expenses by $0.8 million.

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Income before taxes increased by $1.0 million or 20.5% to $5.7 million for the three months ended June 30, 2009, from $4.8 million for the three months ended June 30, 2008. Net income increased by $0.3 million or 11.9% to $3.1 million for the three months ended June 30, 2009, from $2.8 million for three months ended June 30, 2008.

Revenues

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

	Three Months Ended June 30,					
	2009		2008			
	$	% of Revenues	$	% of Revenues	$ Change	% Change
	($ in thousands)					
Commissions						
U.S. high-grade	$ 13,808	53.4%	$ 12,554	49.0%	$ 1,254	10.0%
Eurobond	4,712	18.2	5,120	20.0	(408)	(8.0)
Other	3,310	12.8	2,464	9.6	846	34.3
Total commissions	21,830	84.5	20,138	78.6	1,692	8.4
Technology products and services	2,096	8.1	2,676	10.4	(580)	(21.7)
Information and user access fees	1,504	5.8	1,442	5.6	62	4.3
Investment income	234	0.9	761	3.0	(527)	(69.3)
Other	175	0.7	620	2.4	(445)	(71.8)
Total revenues	$ 25,839	100.0%	$ 25,637	100.0%	$ 202	0.8%

Commissions. Total commissions increased by $1.7 million or 8.4% to $21.8 million for the three months ended June 30, 2009, from $20.1 million for the three months ended June 30, 2008. The following table shows the extent to which the increase in commissions for the three months ended June 30, 2009 was attributable to changes in transaction volumes, transaction fees per million and monthly distribution fees:

	Change from Three Months Ended June 30, 2008			
	U.S. High-Grade	Eurobond	Other	Total
	(In thousands)			
Volume (decrease) increase	$ (534)	$ 150	$ 71	$ (313)
Transaction fee per million increase	1,948	285	775	3,008
Monthly distribution fees (decrease)	(160)	(843)		(1,003)
Total commissions increase (decrease)	$ 1,254	$ (408)	$ 846	$ 1,692

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

	Three Months Ended June 30,	
	2009	2008
Average Fee Per Million		
U.S. high-grade		
Transaction	$ 163	$ 111
Total	$ 364	$ 294
Eurobond		
Transaction	$ 131	$ 110
Total	$ 358	$ 434
Other	$ 210	$ 161
All Products		
Transaction	$ 168	$ 122
Total	$ 327	$ 289

U.S. high-grade volume decreased by 11.2% for the three months ended June 30, 2009, compared to the three months ended June 30, 2008. The decrease in U.S. high-grade volume was due to a decline in the Company s estimated market share of total U.S. high-grade corporate bond volume as reported by the FINRA Trade Reporting and Compliance Engine (TRACE) from 7.5% for the three months ended June 30, 2008 to 4.7% for the three months ended June 30, 2009, offset by an increase in overall market volume as measured by FINRA TRACE. Estimated FINRA TRACE U.S. high-grade volume increased by 41.2% from $571.7 billion for the three months ended June 30, 2008 to $807.1 billion for the three months ended June 30, 2009. The U.S. high-grade distribution fees were $7.6 million for the three months ended June 30, 2009, compared to $7.8 million for the three months ended June 30, 2008. The U.S. high-grade distribution fees decreased as a result of recent merger and bankruptcy activity involving several of our broker-dealer clients. The total U.S. high-grade average fee per million is calculated for each period presented using both the transaction fees and the monthly distribution fees paid by our broker-dealer clients. The U.S. high-grade average transaction fee per million increased from $111 for the three months ended June 30, 2008 to $163 for the three months ended June 30, 2009, primarily due to the introduction of our execution services desk, the introduction of new dealers on the platform that pay higher variable fees per million and the longer maturity of trades executed on the platform, for which we charge higher commissions.

Eurobond volume increased by 11.6% for the three months ended June 30, 2009, compared to the three months ended June 30, 2008. The Eurobond distribution fees were $3.0 million for the three months ended June 30, 2009, compared to $3.8 million for the three months ended June 30, 2008. The total Eurobond average fee per million is calculated for each period presented using both the transaction fees and the monthly distribution fees paid by our broker-dealer clients. The Eurobond average transaction fee per million increased from $110 for the three months ended June 30, 2008 to $131 for the three months ended June 30, 2009. A 21.1% change in the average exchange rate of the Pound Sterling compared to the U.S. dollar from the three months ended June 30, 2008 to the three months ended June 30, 2009, had the effect of reducing Eurobond commission revenues by $1.3 million.

Other volume increased by 2.6% for the three months ended June 30, 2009, compared to the three months ended June 30, 2008. Other average fee per million increased from $161 for the three months ended June 30, 2008 to $210 for the three months ended June 30, 2009, primarily due to a larger percentage of Other volume in products that carry higher fees per million, principally high-yield bonds.

Technology Products and Services. Technology products and services revenues decreased by $0.6 million or 21.7% to $2.1 million for the three months ended June 30, 2009, from $2.7 million for the three months ended June 30, 2008. The decrease was primarily due to the sale of fewer FIX-related product licenses.

Information and User Access Fees. Information and user access fees increased by $0.1 million or 4.3% to $1.5 million for the three months ended June 30, 2009, from $1.4 million for the three months ended June 30, 2008.

Investment Income. Investment income decreased by $0.5 million or 69.3% to $0.2 million for the three months ended June 30, 2009, from $0.8 million for the three months ended June 30, 2008. The decrease was due principally to lower interest rates.

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Other. Other revenues decreased by $0.4 million or 71.8% to $0.2 million for the three months ended June 30, 2009, from $0.6 million for the three months ended June 30, 2008. The 2008 revenues include license fees and a one-time insurance settlement aggregating $0.3 million, which did not recur in 2009.

Expenses

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

	Three Months Ended June 30,					
	2009		2008			
	$	% of Revenues	$	% of Revenues	$ Change	% Change
	($ in thousands)					
Employee compensation and benefits	$ 11,917	46.1%	$ 11,576	45.2%	$ 341	2.9%
Depreciation and amortization	1,679	6.5	1,816	7.1	(137)	(7.5)
Technology and communications	2,120	8.2	2,048	8.0	72	3.5
Professional and consulting fees	1,613	6.2	2,521	9.8	(908)	(36.0)
Occupancy	693	2.7	739	2.9	(46)	(6.2)
Marketing and advertising	708	2.7	685	2.7	23	3.4
General and administrative	1,373	5.3	1,493	5.8	(120)	(8.0)
Total expenses	$ 20,103	77.8%	$ 20,878	81.4%	$ (775)	(3.7)%

Employee Compensation and Benefits. Employee compensation and benefits increased by $0.3 million or 2.9% to $11.9 million for the three months ended June 30, 2009, from $11.6 million for the three months ended June 30, 2008. This increase was primarily attributable to higher incentive compensation of $0.6 million and stock-based compensation expense of $0.3 million, offset by lower wages of $0.3 million.

Depreciation and Amortization. Depreciation and amortization decreased by $0.1 million or 7.5% to $1.7 million for the three months ended June 30, 2009, from $1.8 million for the three months ended June 30, 2008. For the three months ended June 30, 2009 and 2008, we capitalized $0.6 million and $0.4 million, respectively, of software development costs, and $0.4 million and $0.5 million, respectively, of computer and related equipment purchases.

Technology and Communications. Technology and communications expense increased by $0.1 million or 3.5% to $2.1 million for the three months ended June 30, 2009, from $2.0 million for the three months ended June 30, 2008.

Professional and Consulting Fees. Professional and consulting fees decreased by $0.9 million or 36.0% to $1.6 million for the three months ended June 30, 2009, from $2.5 million for the three months ended June 30, 2008. The decrease was principally due to lower legal expense of $0.5 million and technology consulting of $0.2 million.

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

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

General and Administrative. General and administrative expense decreased by $0.1 million or 8.0% to $1.4 million for the three months ended June 30, 2009, from $1.5 million for the three months ended June 30, 2008, primarily due to a decline in general travel and entertainment costs.

Provision for Income Tax. For the three months ended June 30, 2009 and 2008, we recorded an income tax provision of $2.5 million and $1.9 million, respectively. The increase in the tax provision was primarily attributable to the $1.0 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, 2009 was 44.4%, compared to 40.2% for the three months ended June 30, 2008. The 2009 rate reflects an increase in the projected tax rate on foreign source income, which had the effect of increasing the effective tax rate by 3.6 percentage points. 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.

Six Months Ended June 30, 2009 Compared to Six Months Ended June 30, 2008

Overview

Total revenues increased by $1.9 million or 3.9% to $50.5 million for the six months ended June 30, 2009, from $48.6 million for the six months ended June 30, 2008. This increase in total revenues was primarily due to an increase in U.S. high-grade and other commissions of $3.7 million and technology products and services revenues of $0.7 million, offset by a decline in investment income of $1.2 million and Eurobond commissions of $0.9 million. Technology products and services revenues reflect the impact of the Greenline acquisition in March 2008. A 24.2% change in the average exchange rate of the Pound Sterling compared to the U.S. dollar from the six months ended June 30, 2008 to the six months ended June 30, 2009 had the effect of reducing European revenues by $2.9 million.

Total expenses decreased by $0.8 million or 2.1% to $40.0 million for the six months ended June 30, 2009, from $40.9 million for the six months ended June 30, 2008. This decrease was primarily due to lower professional and consulting fees of $1.2 million and general and administrative expenses of $0.4 million, offset by an increase in employee compensation and benefits of $0.8 million. The change in the foreign currency rates had the effect of reducing European expenses by $1.7 million. The 2008 results include Greenline expenses from the date of the acquisition.

Income before taxes increased by $2.7 million or 35.5% to $10.5 million for the six months ended June 30, 2009, from $7.7 million for the six months ended June 30, 2008. Net income increased by $1.6 million or 35.6% to $6.0 million for the six months ended June 30, 2009, from $4.4 million for six months ended June 30, 2008.

Revenues

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

	Six Months Ended June 30,					
	2009		2008			
	$	% of Revenues	$	% of Revenues	$ Change	% Change
	($ in thousands)					
Commissions						
U.S. high-grade	$ 27,323	54.1%	$ 24,956	51.4%	$ 2,367	9.5%
Eurobond	8,854	17.5	9,709	20.0	(855)	(8.8)
Other	6,099	12.1	4,768	9.8	1,331	27.9
Total commissions	42,276	83.8	39,433	81.2	2,843	7.2
Technology products and services	4,119	8.2	3,443	7.1	676	19.6
Information and user access fees	3,159	6.3	2,923	6.0	236	8.1
Investment income	566	1.1	1,752	3.6	(1,186)	(67.7)
Other	351	0.7	1,025	2.1	(674)	(65.8)
Total revenues	$ 50,471	100.0%	$ 48,576	100.0%	$ 1,895	3.9%

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Commissions. Total commissions increased by $2.8 million or 7.2% to $42.3 million for the six months ended June 30, 2009, from $39.4 million for the six months ended June 30, 2008. The following table shows the extent to which the increase in commissions for the six months ended June 30, 2009 was attributable to changes in transaction volumes, transaction fees per million and monthly distribution fees:

	Change from Six Months Ended June 30, 2008			
	U.S. High-Grade	Eurobond	Other	Total
	(In thousands)			
Volume (decrease) increase	$ (744)	$ 255	$ (451)	$ (940)
Transaction fee per million increase	4,256	495	1,782	6,533
Monthly distribution fees (decrease)	(1,145)	(1,605)		(2,750)
Total commissions increase (decrease)	$ 2,367	$ (855)	$ 1,331	$ 2,843

Our average fee per million for the six months ended June 30, 2009 and 2008 was as follows:

	Six Months Ended June 30,	
	2009	2008
Average Fee Per Million		
U.S. high-grade		
Transaction	$ 169	$ 112
Total	$ 366	$ 307
Eurobond		
Transaction	$ 130	$ 108
Total	$ 398	$ 488
Other	$ 204	$ 144
All Products		
Transaction	$ 170	$ 119
Total	$ 333	$ 294

U.S. high-grade volume decreased by 8.2% for the six months ended June 30, 2009, compared to the six months ended June 30, 2008. The decrease in U.S. high-grade volume was due to a decline in the Company s estimated market share of total U.S. high-grade corporate bond volume as reported by FINRA TRACE from 7.4% for the six months ended June 30, 2008 to 5.2% for the six months ended June 30, 2009, offset by an increase in overall market volume as measured by FINRA TRACE. Estimated FINRA TRACE U.S. high-grade volume increased by 31.6% from $1,102.5 billion for the six months ended June 30, 2008 to $1,451.4 billion for the six months ended June 30, 2009. The U.S. high-grade distribution fees were $14.7 million for the six months ended June 30, 2009, compared to $15.9 million for the six months ended June 30, 2008. The U.S. high-grade distribution fees decreased as a result of recent merger and bankruptcy activity involving several of our broker-dealer clients. The U.S. high-grade average transaction fee per million increased from $112 for the six months ended June 30, 2008 to $169 for the six months ended June 30, 2009, primarily due to the introduction of our execution services desk, the introduction of new dealers on the platform that pay higher variable fees per million and the longer maturity of trades executed on the platform, for which we charge higher commissions.

Eurobond volume increased by 11.9% for the six months ended June 30, 2009, compared to the six months ended June 30, 2008. The Eurobond distribution fees were $6.0 million for the six months ended June 30, 2009, compared to $7.6 million for the six months ended June 30, 2008. The Eurobond average transaction fee per million increased from $108 for the six months ended June 30, 2008 to $130 for the six months ended June 30, 2009. A 24.2% change in the average exchange rate of the Pound Sterling compared to the U.S. dollar from the six months ended June 30, 2008 to the six months ended June 30, 2009, had the effect of reducing Eurobond commission revenues by $2.8 million.

Other volume decreased by 9.4% for the six months ended June 30, 2009, compared to the six months ended June 30, 2008. Other average fee per million increased from $144 for the six months ended June 30, 2008 to $204 for the six months ended June 30, 2009, primarily due to a larger percentage of Other volume in products that carry higher fees per million, principally high-yield bonds.

Technology Products and Services. Technology products and services revenues increased by $0.7 million or 19.6% to $4.1 million for the six months ended June 30, 2009, from $3.4 million for the six months ended June 30, 2008. The increase was primarily a result of the Greenline acquisition in March 2008.

Information and User Access Fees. Information and user access fees increased by $0.2 million or 8.1% to $3.2 million for the six months ended June 30, 2009, from $2.9 million for the six months ended June 30, 2008.

Investment Income. Investment income decreased by $1.2 million or 67.7% to $0.6 million for the six months ended June 30, 2009, from $1.8 million for the six months ended June 30, 2008. The decrease was principally due to lower interest rates.

Other. Other revenues decreased by $0.7 million or 65.8% to $0.4 million for the six months ended June 30, 2009. from $1.0 million for the six months ended June 30, 2008. The 2008 revenues include license fees and a one-time insurance settlement aggregating $0.3 million, which did not recur in 2009.

Expenses

Our expenses and expenses as a percentage of revenues for the six months ended June 30, 2009 and 2008, and the resulting dollar and percentage changes, were as follows:

	Six Months Ended June 30,					
	2009		2008			
	$	% of Revenues	$	% of Revenues	$ Change	% Change
	($ in thousands)					
Employee compensation and benefits	$ 23,359	46.3%	$ 22,594	46.5%	$ 765	3.4%
Depreciation and amortization	3,470	6.9	3,596	7.4	(126)	(3.5)
Technology and communications	4,362	8.6	4,153	8.5	209	5.0
Professional and consulting fees	3,492	6.9	4,674	9.6	(1,182)	(25.3)
Occupancy	1,369	2.7	1,506	3.1	(137)	(9.1)
Marketing and advertising	1,353	2.7	1,369	2.8	(16)	(1.2)
General and administrative	2,599	5.1	2,960	6.1	(361)	(12.2)
Total expenses	$ 40,004	79.3%	$ 40,852	84.1%	$ (848)	(2.1)%

Employee Compensation and Benefits. Employee compensation and benefits increased by $0.8 million or 3.4% to $23.4 million for the six months ended June 30, 2009, from $22.6 million for the six months ended June 30, 2008. This increase was primarily attributable to higher incentive compensation of $1.3 million and stock-based compensation expense of $0.7 million, offset by reduced wages of $0.6 million and severance costs of $0.5 million.

Depreciation and Amortization. Depreciation and amortization expense decreased by $0.1 million or 3.5% to $3.5 million for the six months ended June 30, 2009, from $3.6 million for the six months ended June 30, 2008. An increase in amortization of intangible assets of $0.2 million was more than offset by a decline in depreciation and amortization of hardware and software development costs. The intangible asset amortization increase was due principally to the $8.3 million of definite-life intangibles recorded in 2008 in connection with the Greenline acquisition. For the six months ended June 30, 2009 and 2008, we capitalized $1.0 million and $1.4 million, respectively, of software development costs, and $1.6 million and $0.7 million, respectively, of computer and related equipment purchases.

Technology and Communications. Technology and communications expense increased by $0.2 million or 5.0% to $4.4 million for the six months ended June 30, 2009, from $4.2 million for the six months ended June 30, 2008. This increase was primarily attributable to higher purchases of market data.

Professional and Consulting Fees. Professional and consulting fees decreased by $1.2 million or 25.3% to $3.5 million for the six months ended June 30, 2009, from $4.7 million for the six months ended June 30, 2008. The decrease was principally due to lower legal fees of $0.6 million and information technology consultant costs of $0.3 million.

Occupancy. Occupancy costs decreased by $0.1 million or 9.1% to $1.4 million for the six months ended June 30, 2009, from $1.5 million for the six months ended June 30, 2008.

Marketing and Advertising. Marketing and advertising expenses were $1.4 million for both the six months ended June 30, 2009 and June 30, 2008.

General and Administrative. General and administrative expense decreased by $0.4 million or 12.2% to $2.6 million for the six months ended June 30, 2009, from $3.0 million for the six months ended June 30, 2008. Higher trade settlement costs of $0.2 million were more than offset by lower charges for doubtful accounts, general travel and entertainment and other miscellaneous expenses.

Provision for Income Tax. For the six months ended June 30, 2009 and 2008, we recorded an income tax provision of $4.4 million and $3.3 million, respectively. The increase in the tax provision was primarily attributable to the $2.7 million increase in pre-tax income for the period. With the exception of the payment of certain foreign taxes, the provision for income taxes was a non-cash expense since we had available net operating loss carryforwards and tax credits to offset the cash payment of taxes.

Our consolidated effective tax rate for the six months ended June 30, 2009 was 42.4% compared to 42.5% for the six months ended June 30, 2008. Our consolidated effective tax rate can vary from period to period depending on, among other factors, the geographic and business mix of our earnings and changes in tax legislation and tax rates. Due to our net deferred tax asset balance, a decrease in tax rates results in a reduction in our deferred tax balance and an increase in tax expense.

Liquidity and Capital Resources

During the past three years, we have met our funding requirements through cash on hand, internally generated funds and the issuance of Series B Preferred Stock. Cash and cash equivalents and securities available-for-sale totaled $145.0 million at June 30, 2009. Other than equipment-related capital lease obligations amounting to $1.3 million as of June 30, 2009, we have no long-term or short-term debt and do not maintain bank lines of credit.

Our cash flows were as follows:

	2009	2008
	(In thousands)	
Net cash provided by operating activities	$ 5,887	$ 8,921
Net cash (used in) investing activities	(24,149)	(8,212)
Net cash (used in) provided by financing activities	(75)	23,364
Effect of exchange rate changes on cash	(249)	(528)
Net (decrease) increase for the period	$ (18,586)	$ 23,545

Operating Activities

Net cash provided by operating activities of $5.9 million for the six months ended June 30, 2009 consisted of net income of $6.0 million, adjusted for non-cash charges, primarily consisting of depreciation and amortization of $3.5 million, stock-based compensation expense of $4.2 million and deferred taxes of $4.2 million, offset by an increase in cash used for working capital of $12.4 million. The use of working capital primarily resulted from an increase in accounts receivable of $8.8 million and a decrease in accrued employee compensation of $4.2 million, which included the payment of annual bonuses of $9.5 million in January 2009.

Net cash provided by operating activities of $8.9 million for the six months ended June 30, 2008 consisted of net income of $4.4 million, adjusted for non-cash charges, primarily consisting of depreciation and amortization of $3.6 million, stock-based compensation expense of $3.5 million and deferred taxes of $3.4 million, offset by an increase in cash used for working capital of $6.6 million. The use of working capital primarily resulted from a decrease in accrued employee compensation of $8.7 million, which included the payment of annual bonuses of $13.4 million in January 2008, and a decrease in accounts payable, accrued expense and other liabilities of $0.5 million, offset by a decrease in accounts receivable of $1.3 million.

Investing Activities

Net cash used in investing activities of $24.1 million for the six months ended June 30, 2009 primarily consisted of net purchases of securities available-for-sale of $20.6 million, offset by $1.4 million for an earn-out payment related to the acquisition of Greenline, purchases of furniture, equipment and leasehold improvements of $0.9 million and capitalization of software development costs of $1.0 million.

Net cash used in investing activities of $8.2 million for the six months ended June 30, 2008 primarily consisted of $35.2 million for the acquisition of Greenline, net maturities of securities available-for-sale of $29.1 million, purchases of furniture, equipment and leasehold improvements of $0.7 million and capitalization of software development costs of $1.4 million.

Financing Activities

Net cash used in financing activities of $0.1 million for the six months ended June 30, 2009 consisted principally of a decrement in windfall tax benefits from stock-based compensation of $0.3 million, offset by proceeds from the exercise of stock options of $0.2 million.

Net cash provided by financing activities of $23.4 million for the six months ended June 30, 2008 consisted principally of the net proceeds from the issuance of the Series B Preferred Stock and related common stock purchase warrants of $26.8 million, offset by the purchase of treasury stock of $2.8 million.

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

Other Factors Influencing Liquidity and Capital Resources

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

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

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

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	MarketAxess Corporation	MarketAxess Europe Limited	MarketAxess Canada Limited
		(In thousands)	
Net capital	$ 29,950	$ 22,219	$ 382
Minimum net capital required	710	2,836	237
Excess net capital	$ 29,240	$ 19,383	$ 145

MarketAxess Corporation operates an anonymous matching service for its broker-dealer clients and during 2008 extended its trading counterparty role to include the execution of certain bond transactions between and among institutional investor and broker-dealer clients. MarketAxess Corporation executes all such trades on a riskless principal basis, which are cleared and settled by an independent clearing broker. Under a securities clearing agreement with the independent third party, MarketAxess Corporation maintains a collateral deposit with the clearing broker in the form of cash or U.S. government securities. As of June 30, 2009 and December 31, 2008, the collateral deposit included in securities and cash provided as collateral in the Consolidated Statements of Financial Condition was $0.5 million. MarketAxess Corporation is exposed to credit risk in the event a counterparty does not fulfill its obligation to complete a transaction. Pursuant to the terms of the securities clearing agreement between MarketAxess Corporation and the independent clearing broker, the clearing broker has the right to charge MarketAxess Corporation for losses resulting from a counterparty s failure to fulfill its contractual obligations. The losses are not capped at a maximum amount and apply to all trades executed through the clearing broker. At June 30, 2009, MarketAxess Corporation had not recorded any liabilities with regard to this right.

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

Effects of Inflation

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

Contractual Obligations and Commitments

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

	Payments due by period				
	Total	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
			(In thousands)		
Operating leases	$ 6,662	$ 1,168	$ 1,863	$ 1,334	$ 2,297
Capital leases	1,540	168	672	658	42
Foreign currency forward contract	24,869	24,869			
	$ 33,071	$ 26,205	$ 2,535	$ 1,992	$ 2,339

The Company enters into foreign currency forward contracts with a non-controlling stockholder broker-dealer client to hedge its exposure to variability in foreign currency cash flows resulting from the net investment in its U.K. subsidiary. As of June 30, 2009, the notional value of the foreign currency forward contract outstanding was $24.9 million and the gross and net fair value liability was $20,000.

As of June 30, 2009, we had unrecognized tax benefits of $2.7 million. Due to the nature of the underlying positions, it is not currently possible to schedule the future payment obligations by period. In addition, in connection with the acquisition of Greenline, the sellers are eligible to receive up to an aggregate of $1.5 million in cash in 2010, subject to Greenline attaining certain earn-out targets in 2009. The amount of the earn-out ultimately payable, if any, is currently unknown.

In July 2009, the Company entered into two consecutive lease agreements for office space with a February 2022 lease termination date. The aggregate amount of the future lease obligations under these two leases is $17.1 million, which amount is not reflected in the commitment table above.

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, 2009, we had a $56.2 million investment in securities available-for-sale. Adverse movements, such as a 10% decrease in the value of these securities or a downturn or disruption in the markets for these securities, could result in a substantial loss. In addition, principal gains and losses resulting from these securities could on occasion have a disproportionate effect, positive or negative, on our financial condition and results of operations for any particular reporting period.

Interest Rate Risk

Interest rate risk represents our exposure to interest rate changes with respect to the money market instruments, U.S. Treasury obligations and short-term fixed-income securities in which we invest. As of June 30, 2009, our cash and cash equivalents and securities available-for-sale amounted to $145.0 million and were primarily in money market instruments, federal agency issues 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, 2009, the notional value of our foreign currency forward contract was $24.9 million. We do not speculate in any derivative instruments.

Credit Risk

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

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

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

(a) *Evaluation of Disclosure Controls and Procedures.* Our management, including the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as that term is defined in Rule 13a-15(e) and Rule 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act), as of June 30, 2009. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures are effective to ensure that information required to be disclosed by MarketAxess in the reports that we file or submit under

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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, 2009 identified in connection with the evaluation thereof by our management, including the Chief Executive Officer and Chief Financial Officer, that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II Other Information

Item 1. ***Legal Proceedings***

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

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

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

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

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

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

Recent Sales of Unregistered Securities

None.

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Issuer Purchases of Equity Securities

During the quarter ended June 30, 2009, 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, 2009 April 30, 2009	844	$ 7.74		$
May 1, 2009 May 31, 2009				
June 1, 2009 June 30, 2009				
	844	$ 7.74		

During the three months ended June 30, 2009, a total of 844 shares were forfeited by employees to us to satisfy employee withholding tax obligations upon the vesting of restricted shares.

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

None.

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

A total of 28,867,113 shares of common stock were present or represented by proxy at our Annual Meeting of Stockholders held on June 4, 2009 (the 2009 Annual Meeting). This represented 82.0% of our shares of common stock and Series B Preferred Stock outstanding. The following management proposals were voted upon at the 2009 Annual Meeting and all were approved:

Proposal 1 Election of Directors. The results were as follows:

Director Nominee	For	Withheld
Richard M. McVey	28,389,283	477,830
Roger Burkhardt	28,581,338	285,775
Stephen P. Casper	26,590,081	2,277,032
David G. Gomach	28,618,383	248,730
Carlos M. Hernandez	20,865,233	8,001,880
Ronald M. Hersch	28,169,036	698,077
Jerome S. Markowitz	28,618,383	248,730
T. Kelley Millet	28,602,209	264,904
Nicolas S. Rohatyn	26,590,081	2,277,032
John Steinhardt	26,448,375	2,418,738

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Proposal 2 Ratification of the appointment of PricewaterhouseCoopers LLP as the Company s independent registered public accounting firm for the year ending December 31, 2009. The results were as follows:

For	Against	Abstain and Broker Non-votes
28,587,865	246,911	32,337

Proposal 3 Approval of the MarketAxess Holdings Inc. 2009 Code Section 162(m) Executive Performance Incentive Program. The results were as follows:

For	Against	Abstain and Broker Non-votes
24,497,862	3,278,116	1,091,135

Proposal 4 Ratification of the adoption of the Stockholders Rights Agreement. The results were as follows:

For	Against	Abstain and Broker Non-votes
19,895,370	7,875,431	1,096,312

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, 2009	By: /s/ RICHARD M. MCVEY Richard M. McVey Chief Executive Officer (principal executive officer)
Date: July 30, 2009	By: /s/ JAMES N.B. RUCKER James N. B. Rucker Chief Financial Officer (principal financial and accounting officer)

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