MARKETAXESS HOLDINGS INC
Form 10-Q
October 31, 2008

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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 September 30, 2008

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 of incorporation)	*(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 is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o (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 October 29, 2008, the number of shares of the Registrant s voting common stock outstanding was 31,070,846 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 SEPTEMBER 30, 2008
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PART I Financial Information

Item 1. ***Financial Statements***

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

	As of September 30, 2008	As of December 31, 2007
	(In thousands, except share and per share amounts)	
ASSETS		
Cash and cash equivalents	$ 114,962	$ 72,711
Securities and cash provided as collateral	4,416	4,455
Securities available-for-sale	18,036	51,579
Accounts receivable, including receivables from related parties of $3,804 and $6,290, respectively, net of allowance of $899 and $912 as of September 30, 2008 and December 31, 2007, respectively	16,754	18,397
Furniture, equipment and leasehold improvements, net of accumulated depreciation and amortization	3,579	2,931
Software development costs, net of accumulated amortization	4,907	5,759
Goodwill and intangible assets, net of accumulated amortization	38,175	3,389
Prepaid expenses and other assets	2,142	1,938
Deferred tax assets, net	37,103	37,207
Total assets	$ 240,074	$ 198,366
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities		
Accrued employee compensation	$ 8,642	$ 14,311
Deferred revenue	2,568	826
Accounts payable, accrued expenses, and other liabilities, including payables to related parties of $32 and $177 as of September 30, 2008 and December 31, 2007, respectively	8,126	8,832
Total liabilities	19,336	23,969
Commitments and Contingencies (Note 14)		
Series B Preferred Stock, $ .001 par value, 35,000 shares authorized, issued and outstanding as of September 30, 2008, liquidation preference of $1,000 per share	30,315	
Stockholders equity		
Preferred stock, $0.001 par value, 4,855,000 shares authorized, no shares issued and outstanding as of September 30, 2008 and December 31, 2007, respectively		

Series A Preferred Stock, $0.001 par value, 110,000 shares authorized, no shares issued and outstanding as of September 30, 2008 and December 31, 2007		
Common stock voting, $0.003 par value, 110,000,000 shares authorized as of September 30, 2008 and December 31, 2007; 33,946,269 shares and 33,082,371 shares issued as of September 30, 2008 and December 31, 2007, respectively	102	99
Common stock non-voting, $0.003 par value, 10,000,000 authorized and 2,585,654 shares issued and outstanding as of September 30, 2008 and December 31, 2007	9	9
Additional paid-in capital	303,775	289,988
Receivable for common stock subscribed	(951)	(834)
Treasury stock Common stock voting, at cost, 2,864,120 shares and 2,642,714 shares as of September 30, 2008 and December 31, 2007, respectively	(40,000)	(37,227)
Accumulated deficit	(70,791)	(76,754)
Accumulated other comprehensive loss	(1,721)	(884)
Total stockholders equity	190,423	174,397
Total liabilities and stockholders equity	$ 240,074	$ 198,366

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 September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(In thousands, except share and per share amounts)			
Revenues				
Commissions				
U.S. high-grade, including $1,928, $4,756, $5,985 and $16,896 from related parties for the three and nine months ended September 30, 2008 and 2007, respectively	$ 10,777	$ 11,982	$ 35,733	$ 40,196
European high-grade, including $788, $1,401, $2,465 and $3,770 from related parties for the three and nine months ended September 30, 2008 and 2007, respectively	4,427	4,889	14,136	14,099
Other, including $378, $1,285, $1,244 and $3,597 from related parties for the three and nine months ended September 30, 2008 and 2007, respectively	2,015	2,107	6,783	6,832
Total commissions	17,219	18,978	56,652	61,127
Information and user access fees, including $81, $218, $207 and $595 from related parties for the three and nine months ended September 30, 2008 and 2007, respectively	1,562	1,535	4,485	4,357
Investment income, including $310, $474, $786 and $1,388 from related parties for the three and nine months ended September 30, 2008 and 2007, respectively	963	1,332	2,715	3,812
Technology products and services, including $3, $0, $25 and $0 from related parties for the three and nine months ended September 30, 2008 and 2007, respectively	2,646	50	6,089	650
Other, including $45, $150, $132 and $352 from related parties for the three and nine months ended September 30, 2008 and 2007, respectively	291	303	1,316	1,321
Total revenues	22,681	22,198	71,257	71,267
Expenses				
Employee compensation and benefits	11,173	10,258	33,767	32,771
Depreciation and amortization	2,494	1,686	6,090	5,476
Technology and communications	2,007	1,897	6,160	5,595
Professional and consulting fees	1,822	1,883	6,496	5,505

Occupancy		660		869		2,166		2,423
Marketing and advertising		646		481		1,912		1,364
General and administrative, including $17, $7, $35 and $32 from related parties for the three and nine months ended September 30, 2008 and 2007, respectively		1,781		1,481		4,844		3,982
Total expenses		20,583		18,555		61,435		57,116
Income before income taxes		2,098		3,643		9,822		14,151
Provision for income taxes		579		1,233		3,859		5,739
Net income	$	1,519	$	2,410	$	5,963	$	8,412
Net income per common share								
Basic	$	0.04	$	0.07	$	0.17	$	0.26
Diluted	$	0.04	$	0.07	$	0.17	$	0.24
Weighted average shares used to compute net income per common share								
Basic		32,952,012		32,828,978		32,765,660		32,190,478
Diluted		37,438,054		34,575,086		35,187,653		34,592,715

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 NINE MONTHS ENDED SEPTEMBER 30, 2008
(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, 2007	$ 99	$ 9	$ 289,988	$ (834)	$ (37,227)	$ (76,754)	$ (884)	$ 174,397
Comprehensive income:								
Net income						5,963		5,963
Cumulative translation adjustment and foreign currency exchange hedge, net of tax							(420)	(420)
Unrealized net loss on securities available-for-sale, net of tax							(417)	(417)
Total comprehensive income								5,126
Stock-based compensation			5,296					5,296
Issuance of common stock related to the acquisition of Greenline Financial Technologies, Inc.	2		5,773					5,775
Exercise of stock options and grants of restricted stock, net of withholding tax	1		(340)					(339)
Decrement in windfall from stock-based compensation			(137)					(137)
Issuance of common stock purchase warrant			3,195					3,195
				(117)				(117)

Repayment of promissory notes, net of reclassification								
Purchase of treasury stock					(2,773)			(2,773)
Balance at September 30, 2008	$ 102	$ 9	$ 303,775	$ (951)	$ (40,000)	$ (70,791)	$ (1,721)	$ 190,423

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)

	Nine Months Ended September 30,	
	2008	2007
	(In thousands)	
Cash flows from operating activities		
Net income	$ 5,963	$ 8,412
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,090	5,476
Stock-based compensation expense	5,296	4,101
Deferred taxes	3,853	5,350
Provision for bad debts	928	272
Changes in operating assets and liabilities, net of business acquired:		
Decrease (increase) in accounts receivable, including decrease of $2,486 and $2,168 from related parties for the nine months ended September 30, 2008 and 2007, respectively	2,646	(2,525)
Decrease in prepaid expenses and other assets	814	899
(Decrease) in accrued employee compensation	(6,025)	(1,342)
Increase in deferred revenue	883	287
(Decrease) increase in accounts payable, accrued expenses and other liabilities, including (decrease) increase of ($145) and $8 to related parties for the nine months ended September 30, 2008 and 2007, respectively	(2,599)	1,400
Net cash provided by operating activities	17,849	22,330
Cash flows from investing activities		
Acquisition of businesses, net of cash acquired (Note 3)	(34,918)	
Securities available-for-sale:		
Proceeds from maturities	37,669	36,855
Purchases	(4,832)	(41,250)
Securities and cash provided as collateral	39	32
Purchases of furniture, equipment and leasehold improvements	(1,315)	(1,137)
Capitalization of software development costs	(1,882)	(2,645)
Net cash (used in) investing activities	(5,239)	(8,145)
Cash flows from financing activities		
Issuance of Series B Preferred Stock and common stock purchase warrants	33,510	
Proceeds from exercise of stock options and grants of restricted stock, net of withholding tax	(339)	5,112
(Decrement in windfall) excess tax benefits from stock-based compensation	(137)	389
Repayment of promissory notes	91	208
Purchase of treasury stock common stock voting	(2,773)	(27,377)
Net cash provided by (used in) financing activities	30,352	(21,668)

Effect of exchange rate changes on cash		(711)		(167)
Cash and cash equivalents				
Net increase (decrease) for the period		42,251		(7,650)
Beginning of year		72,711		82,000
End of period	$	114,962	$	74,350
Supplemental cash flow information:				
Cash paid during the year:				
Income taxes paid	$	51	$	127
Non-cash activity:				
Issuance of common stock in connection with business acquisition	$	5,775	$	
Capital lease obligation	$	645	$	
Exercise of warrants and issuance of common stock	$		$	11,658

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 with each other on its platform. Through its Corporate BondTicker service, the Company provides fixed-income market data, analytics and compliance tools that help its clients make trading decisions. In addition, the Company provides FIX (Financial Information Exchange) message management tools, connectivity solutions and ancillary technology services that facilitate the electronic communication of order information between trading counterparties.

The Company s stockholder broker-dealer clients as of January 1, 2008 were BNP Paribas, Credit Suisse and JPMorgan. These broker-dealer clients constitute related parties of the Company (together, the Stockholder Broker-Dealer Clients). For 2007, a total of seven 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 for the year ended December 31, 2007. The consolidated financial information as of December 31, 2007 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 which 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 and Cash Provided as Collateral

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

Securities Available-for-Sale

The Company classifies its marketable securities as available-for-sale securities. Unrealized marketable securities gains and losses are reflected as a net amount under the caption of accumulated other comprehensive loss in the Consolidated Statements of Financial

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

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 in 2008 and 2007.

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 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.

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 information and user access fees, investment income, technology products and services 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.

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

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

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 separately from any other element 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 September 30, 2008 and December 31, 2007. Revenues recognized in excess of billings are recorded as unbilled services. Billings in excess of revenues recognized are recorded as deferred revenues until revenue recognition criteria are met.

Stock-Based Compensation for Employees

The Company measures and recognizes compensation expense for all share-based payment awards made to employees in accordance with Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), Share-Based Payment . 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. 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.

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 a foreign currency forward contract to hedge its net investment in its U.K. subsidiary. In accordance with 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.

Business Combinations, Goodwill and Intangible Assets

Business acquisitions are accounted for under the purchase method of accounting in accordance with SFAS No. 141, Business Combinations. The total cost of an acquisition is allocated to the underlying net assets based on their respective estimated fair values. The excess of the purchase price over the estimated fair values of the net assets acquired is recorded as goodwill.

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

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 over their estimated useful lives ranging from five to ten years. Intangible assets are assessed for impairment when events or circumstances indicate a possible impairment pursuant to the provisions of SFAS No. 144, Accounting for Long Lived Assets and for Long Lived Assets to be Disposed Of.

Earnings Per Share

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

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

Use of Estimates

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

Recent Accounting Pronouncements

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

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

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

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

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

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities An Amendment of FASB Statement No. 133 (SFAS 161). SFAS 161 expands the disclosure requirements for derivative instruments and hedging activities. SFAS 161 is effective for fiscal years beginning after November 15, 2008. The Company is currently evaluating the potential impact of SFAS 161 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 are eligible to receive up to an aggregate of $3.0 million in cash, subject to Greenline attaining certain earn-out targets over the next two years. A total of $2.0 million of the purchase price has been deposited into escrow accounts to satisfy potential indemnity claims. Absent any indemnity claims, the final amount held in escrow will be distributed to the sellers on March 6, 2009. The shares of our common stock to be issued to each selling shareholder of Greenline shall be held by the Company and released in two equal installments on December 20, 2008 and December 20, 2009, respectively. The value ascribed to the shares was discounted from the market value to reflect the non-marketability of such shares during the restriction period.

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

Cash	$ 6,406
Accounts receivable	2,139
Amortizable intangibles	8,330

Goodwill	28,104
Deferred tax assets, net	3,135
Other assets, including investment in TradeHelm	1,429
Accounts payable, accrued expenses and deferred revenue	(8,492)
Total purchase price	$ 41,051

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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 three months ended September 30, 2007 and the nine months ended September 30, 2008 and 2007, as if the acquisition of Greenline had occurred as of the beginning of the period presented, after giving effect to certain purchase accounting adjustments. These pro forma results are not necessarily indicative of what the Company s operating results would have been had the acquisition actually taken place as of the beginning of the period presented. The pro forma financial information includes the amortization charges from acquired intangible assets, adjustments to interest income and related tax effects.

	Pro forma		
	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	2007
	(In thousands, except per share amounts)		
Revenues	$23,714	$ 72,848	$ 74,884
Income before income taxes	$ 3,795	$ 10,147	$ 13,727
Net income	$ 2,513	$ 6,169	$ 8,202
Basic net income per common share	$ 0.07	$ 0.18	$ 0.25
Diluted net income per common share	$ 0.07	$ 0.17	$ 0.23

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, the Company s subsidiaries were required to maintain as of September 30, 2008:

	MarketAxess Corporation	MarketAxess Europe Limited	MarketAxess Canada Limited
		(In thousands)	
Net capital	$ 20,487	$ 19,418	$ 491
Minimum net capital required	813	3,106	284
Excess net capital	$ 19,674	$ 16,312	$ 207

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 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It also establishes a three-tiered fair value hierarchy that prioritizes inputs to valuation techniques used in fair value calculations. The three levels of inputs are defined as Level 1 (unadjusted quoted prices for identical assets or liabilities in active markets), Level 2 (inputs that are observable in the marketplace other than those inputs

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classified in Level 1) and Level 3 (inputs that are unobservable in the marketplace). The Company s financial assets and liabilities measured at fair value on a recurring basis consist of its securities available-for-sale portfolio and one foreign currency forward contract. The following table summarizes the valuation of the Company s assets and liabilities measured at fair value at September 30, 2008.

	Level 1	Level 2	Level 3	Total
		(In thousands)		
Securities available-for-sale				
Federal agency issues and municipal securities	$	$ 10,924	$	$ 10,924
Municipal auction rate securities		1,008	6,104	7,112
Foreign currency forward position		(9)		(9)
	$	$ 11,923	$ 6,104	$ 18,027

The following table is a reconciliation of financial assets measured at fair value using significant unobservable inputs (Level 3) for the three and nine months ended September 30, 2008:

	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2008
Balance as of beginning of period	$ 3,901	$
Transfers into Level 3	2,470	6,770
Total unrealized losses included in other comprehensive loss	(267)	(666)
Balance as of September 30, 2008	$ 6,104	$ 6,104

Securities classified within Level 2 were valued using a market approach utilizing prices and other relevant information generated by market transactions involving comparable assets. Several of the Company s investments in municipal auction rate securities (MARS) are classified within Level 3 because some of the inputs to the pricing model used to value the securities were unobservable in the market. The foreign currency forward contract is classified within Level 2 as the valuation inputs are based on quoted market prices.

As of September 30, 2008, the Company had $7.0 million invested in MARS with a face value of $7.7 million. Liquidity for these securities is typically provided by an auction process that resets the applicable interest rate at pre-determined 35-day intervals. All of the MARS held are rated AAA or AA by Standard & Poor s and, in some cases, the pool of assets underlying the securities is guaranteed by the U.S. Department of Education. Auctions for these securities began to fail in February 2008 and, as a result, the Company has been unable to liquidate these holdings. Since February 2008, each of the four remaining securities has experienced seven failed auctions and there have not been any successful auctions. The maturity dates for the securities range from 2033 to 2038 and the interest rate is generally based on either a commercial paper rate, treasury bill rate or other stated index. The weighted average yield for the MARS as of September 30, 2008 was 3.1%. While interest on the MARS continues to be earned and received at the maximum contractual rate, the Company has concluded that estimated fair value for three of these securities no longer approximates par value. During the nine months ended September 30, 2008, the Company recorded an unrealized loss of approximately $0.7 million to accumulated other comprehensive loss in the Consolidated Statements of Financial Condition. The Company did not sell any MARS during the nine months ended September 30, 2008. The valuation technique used to estimate fair value incorporated assumptions about an anticipated term of approximately ten years in each case and a yield that a market participant would require to purchase an equivalently rated municipal security. The decline in fair value is deemed temporary since the Company has the intent and ability to hold these investments until anticipated full recovery in fair value occurs. Due to the uncertainty in the credit markets, it is reasonably possible that the fair value of the MARS may change in the near term. If the credit markets recover and successful auctions resume or the issuer calls the security, the Company may be able to recover an amount greater than the carrying value of its investment. However, if the issuers credit rating deteriorates, the Company may further adjust the carrying value of its investment in MARS and may need to consider an other-than-temporary impairment charge.

On October 16, 2008, one of our MARS was redeemed by the issuer at its par value of $1.0 million. On October 29, 2008, the Company entered into an agreement with the investment manager used to purchase the three remaining MARS, in which the

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investment manager agreed to buy the MARS at their par value of $6.7 million. This transaction is expected to settle during the fourth quarter of 2008, at which time the Company will have no investments in MARS.

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

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
		(In thousands)		
As of September 30, 2008				
Federal agency issues and municipal securities	$ 10,899	$ 30	$ (5)	$ 10,924
Municipal auction rate securities	7,777		(665)	7,112
	$ 18,676	$ 30	$ (670)	$ 18,036
As of December 31, 2007				
Federal agency issues and municipal securities	$ 38,369	$ 78	$ (11)	$ 38,436
Municipal auction rate securities	13,143			13,143
	$ 51,512	$ 78	$ (11)	$ 51,579

6. Furniture, Equipment and Leasehold Improvements

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

	As of September 30, 2008	December 31, 2007
	(In thousands)	
Computer hardware and related software	$ 17,810	$ 16,523
Office hardware	3,593	3,317
Furniture and fixtures	1,850	1,834
Leasehold improvements	2,186	2,226
Computer hardware under capital lease	645	
Accumulated depreciation and amortization	(22,505)	(20,969)
Total furniture, equipment and leasehold improvements, net	$ 3,579	$ 2,931

7. Software Development Costs

During the nine months ended September 30, 2008 and 2007, software development costs totaling $1.9 million and $2.6 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 September 30, 2008	December 31, 2007

	(In thousands)	
Software development costs	$ 19,185	$ 17,344
Accumulated amortization	(14,278)	(11,585)
Total software development costs, net	$ 4,907	$ 5,759

8. Goodwill and Intangible Assets

Goodwill and intangible assets principally relate to the allocation of purchase price associated with the acquisition of Trade West Systems, LLC (TWS), which was completed in November 2007, and the preliminary allocation of purchase price for the acquisition of Greenline. The following is a summary of changes in goodwill for the nine months ended September 30, 2008 (in thousands):

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Balance at December 31, 2007	$ 2,361
Goodwill from Greenline acquisition	28,104
TWS purchase price allocation adjustment	18
Balance at September 30, 2008	$ 30,483

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

	September 30, 2008			December 31, 2007		
	Cost	Accumulated Amortization	Net Carrying Amount	Cost	Accumulated Amortization	Net Carrying Amount
	(In thousands)					
Technology	$ 4,010	$ (938)	$ 3,072	$ 770	$ (26)	$ 744
Customer relationships	3,530	(487)	3,043	220	(4)	216
Non-competition agreements	1,260	(144)	1,116			
Tradenames	590	(129)	461	70	(2)	68
Total	$ 9,390	$ (1,698)	$ 7,692	$ 1,060	$ (32)	$ 1,028

During the third quarter of 2008, the Company determined that the technology, customer relationships and tradename intangible assets recognized in connection with the TWS acquisition were impaired. A charge of $0.7 million was recorded to reflect negative current period operating results and reduced revenue expectations for connectivity solutions principally delivered to broker-dealers. Additional amortization expense associated with identifiable intangible assets was $1.0 million for the nine months ended September 30, 2008. Estimated total amortization expense is $2.1 million for 2008, $1.6 million for 2009, $1.5 million for 2010 and 2011 and $1.4 million for 2012.

9. Income Taxes

The provision for income taxes consists of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(In thousands)			
Current:				
Federal	$	$	$	$
State and local				88
Foreign	78	(9)	193	69
Total current provision	78	(9)	193	157
Deferred:				

Federal	9	550	1,717	3,163
State and local	(38)	303	685	1,560
Foreign	530	389	1,264	859
Total deferred provision	501	1,242	3,666	5,582
Provision for income taxes	$ 579	$ 1,233	$ 3,859	$ 5,739

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

	As of	
	September 30, 2008	December 31, 2007
	(In thousands)	
Deferred tax assets and liabilities	$ 37,726	$ 37,830
Valuation allowance	(623)	(623)
Deferred tax assets, net	$ 37,103	$ 37,207

MARKETAXESS HOLDINGS INC.
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As of September 30, 2008, the Company has deferred tax assets associated with stock-based compensation of approximately $4.2 million. Given the current market price of the Company s common stock, 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 FAS 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 September 30, 2008, the additional paid-in-capital pool is approximately $3.3 million.

The Company or one of its subsidiaries files U.S. federal, state and foreign income tax returns. With the exception of New York and Connecticut state tax returns, all U.S. federal, state and U.K. income tax returns have not been subject to audit. 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, 2007, the Company recognized an increase in deferred tax assets of $3.0 million related to previously unrecognized tax benefits, which was accounted for as an increase to additional paid-in capital of $0.3 million and an increase in accrued expenses of $2.7 million. Unrecognized tax benefits as of December 31, 2007 and September 30, 2008 were $2.7 million. If recognized, this entire amount would impact the effective tax rate.

The Company recognizes interest and penalties related to unrecognized tax benefits in general and administrative expenses in the Consolidated Statements of Operations. Interest expense was zero for the three and nine months ended September 30, 2008 and zero and $28,000 for the three and nine months ended September 30, 2007, respectively.

In the first quarter of 2007, the Company experienced an ownership change within the meaning of Section 382 of the Internal Revenue Code. The Company does not believe that this ownership change significantly impacts its ability to utilize existing net operating loss carryforwards.

10. Related Parties

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

	As of	
	September 30, 2008	December 31, 2007
	(In thousands)	
Cash and cash equivalents	$114,898	$ 71,598
Securities and cash provided as collateral	3,916	3,955
Accounts receivable	3,804	6,290
Accounts payable	32	177

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(In thousands)			
Commissions	$3,094	$6,993	$ 9,695	$ 24,263

Information and user access fees	81	218	207	595
Investment income	310	474	786	1,388
Technology products and services	3		25	
Other income	45	150	132	352
General and administrative	17	7	35	32
	16			

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11. Stockholders Equity and Preferred Stock

Common Stock

As of September 30, 2008 and December 31, 2007, the Company had 110,000,000 authorized shares of common stock and 10,000,000 authorized shares of non-voting common stock. Common stock entitles the holder to one vote per share of common stock held. During the nine months ended September 30, 2007, a total of 539,725 shares of non-voting common stock were converted to common stock.

During the nine months ended September 30, 2007, two Stockholder Broker-Dealer Clients converted 2,379,200 warrants into 2,378,764 shares of common stock through cashless exercises. The exercise of warrants during 2007 and prior years resulted in an unrecognized deferred tax asset of $18.3 million that will be recorded as an increase to additional paid-in capital once the tax benefit serves to reduce taxes payable in future years.

In October 2006, the Board of Directors of the Company authorized a share repurchase program for up to $40.0 million of common stock. Shares repurchased under the program will be held in treasury for future use. In January 2008, the Company repurchased 221,406 shares of common stock at a cost of $2.8 million to complete the share repurchase program. A total of 2,864,120 shares were repurchased at an aggregate cost of $40.0 million over the life of the repurchase program.

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, and to cause such registration statement to become effective under the Securities Act of 1933, as amended, no later than twelve months after the closing. The Company has also agreed to provide the Purchasers with certain piggyback registration rights.

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

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

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

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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 has been classified as mezzanine and not permanent equity. The Series B Preferred Stock is not being accreted to its redemption value since the occurrence of a redemption event is not considered probable.

Stockholder Rights Agreement

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

12. Stock-Based Compensation Plans

Stock-based compensation expense for the three and nine months ended September 30, 2008 and 2007 was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(In thousands)			
Employee:				
Stock options	$ 964	$ 583	$ 2,872	$ 2,264
Restricted stock	707	568	2,107	1,518
	1,671	1,151	4,979	3,782
Non-employee directors:				
Stock options	32	36	94	101
Restricted stock	82	83	223	218
	114	119	317	319
Total stock-based compensation	$ 1,785	$ 1,270	$ 5,296	$ 4,101

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 nine months ended September 30, 2008, the Company granted to employees a total of 851,620 options to purchase shares of common stock, 151,915 shares of restricted stock and performance-based shares with a target pay-out of 177,680 shares of

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common stock. Based on the Black-Scholes option pricing model, the weighted average fair value for each option granted was $4.54 per share. The fair value of the restricted stock and performance-based share awards was based on a weighted-average grant date fair value of $10.49 per share. As of September 30, 2008, there was $12.3 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.

13. Earnings Per Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(In thousands, except share and per share amounts)			
Basic EPS				
Net income	$ 1,519	$ 2,410	$ 5,963	$ 8,412
Amount allocable to common shareholders	90.4%	100.0%	95.7%	100.0%
Net income applicable to common stock	$ 1,373	$ 2,410	$ 5,705	$ 8,412
Common stock voting	30,366,358	30,243,324	30,180,006	29,424,916
Common stock non-voting	2,585,654	2,585,654	2,585,654	2,765,562
Basic weighted average shares outstanding	32,952,012	32,828,978	32,765,660	32,190,478
Basic earnings per share	$ 0.04	$ 0.07	$ 0.17	$ 0.26
Diluted EPS				
Net income	$ 1,519	$ 2,410	$ 5,963	$ 8,412
Basic weighted average shares outstanding	32,952,012	32,828,978	32,765,660	32,190,478
Effect of dilutive shares:				
Series B Preferred Stock	3,500,000		1,477,778	
Warrants				772,977
Stock options and restricted stock	986,042	1,746,108	944,215	1,629,260
Diluted weighted average shares outstanding	37,438,054	34,575,086	35,187,653	34,592,715
Diluted earnings per share	$ 0.04	$ 0.07	$ 0.17	$ 0.24

Stock options, restricted stock and warrants totaling 5,090,066 shares and 457,043 shares for the three months ended September 30, 2008 and 2007, respectively, and 4,634,884 shares and 664,911 shares for the nine months ended September 30, 2008 and 2007, respectively, were excluded from the computation of diluted earnings per share because their effect would have been antidilutive.

14. Commitments and Contingencies

The Company leases office space and equipment under non-cancelable lease agreements expiring at various dates through 2016. Office space leases are subject to escalation based on certain costs incurred by the landlord. Minimum rental commitments under such operating and capital leases, net of sublease income, are as follows:

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	Operating Leases	Capital Lease
	(In thousands)	
Remainder of 2008	$ 558	$ 39
2009	2,236	160
2010	1,040	160
2011	613	160
2012	553	160
2013	555	119
Thereafter	1,087	
Minimum lease payments	6,642	798
Less amount representing interest		153
	$ 6,642	$ 645

Rental expense of $0.6 million and $0.8 million for the three months ended September 30, 2008 and 2007, respectively, and $1.8 million and $2.1 million for the nine months ended September 30, 2008 and 2007, respectively, 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.

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 September 30, 2008 and December 31, 2007 was $0.5 million and $0.7 million, respectively. In May 2008, the Company assigned the lease agreement on another leased property. The Company is contingently liable should the assignee default on future lease obligations through the November 2016 lease termination date. The aggregate amount of future lease obligations under these two arrangements is $5.7 million as of September 30, 2008.

The Company is contingently obligated for standby letters of credit that were issued to landlords for office space. The Company uses a U.S. government obligation as collateral for these standby letters of credit. This collateral is included with securities and cash provided as collateral in the Consolidated Statements of Financial Condition and had a fair market value of $3.3 million as of September 30, 2008 and December 31, 2007.

MarketAxess Corporation operates an anonymous matching service for its broker-dealer clients. MarketAxess Corporation executes trades on a riskless principal basis, which are cleared and settled by an independent clearing broker. Under a securities clearing agreement with the independent clearing broker, MarketAxess Corporation maintains a collateral deposit with the clearing broker in the form of cash or U.S. government securities. As of September 30, 2008 and December 31, 2007, the collateral deposit included in securities and cash provided as collateral in the Consolidated Statements of Financial Condition was $0.5 million. MarketAxess Corporation is exposed to credit risk in the event a counterparty does not fulfill its obligation to complete a transaction. Pursuant to the terms of the securities clearing agreement between MarketAxess Corporation and the independent clearing broker, the clearing broker has the right to charge MarketAxess Corporation for losses resulting from a counterparty s failure to fulfill its contractual obligations. The losses are not capped at a maximum amount and apply to all trades executed through the clearing broker. As of September 30, 2008, MarketAxess Corporation recorded no 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 believes the risk of loss to be remote.

In January 2007, two former employees commenced arbitration proceedings against MarketAxess Corporation before FINRA arising out of the expiration of certain vested and unvested stock options and unvested restricted shares issued to them. In April 2007, one of those former employees brought a separate FINRA arbitration against MarketAxess Holdings Inc. based on the same claim he had filed against MarketAxess Corporation. The arbitrations filed by this former employee were consolidated before FINRA and, by an award served on the parties on June 20, 2008, the FINRA arbitration panel denied the former employee s claims, totaling approximately $3.6 million, in their entirety. The period to file a motion to vacate the award expired in September 2008.

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

The claim of the other former employee, which is pending before FINRA, is that the Company wrongfully failed to accelerate the vesting of his then unvested options and restricted shares upon his termination and also failed to waive the 90-day time period within which he was 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 this former employee total approximately $0.9 million, plus statutory interest, and an unstated amount of punitive damages, costs and expenses. The FINRA hearing is scheduled for February 2009. The Company has vigorously defended the claims brought against it and MarketAxess Corporation. Based on currently available information, management 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.

15. Comprehensive Income

Comprehensive income was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(In thousands)			
Net income	$ 1,519	$ 2,410	$ 5,963	$ 8,412
Cumulative translation adjustment and foreign currency exchange hedge, net of taxes	(123)	(62)	(420)	(145)
Unrealized net loss on securities available-for-sale, net of taxes	(178)	53	(417)	22
Total comprehensive income	$ 1,218	$ 2,401	$ 5,126	$ 8,289

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, 648 active institutional investor client firms (firms that executed at least one trade in U.S. or European fixed-income securities through our electronic trading platform between October 2007 and September 2008) can access the aggregate liquidity provided by the collective interest of our 49 broker-dealer clients in buying or selling bonds through our platform. Our active institutional investor clients include investment advisers, mutual funds, insurance companies, public and private pension funds, bank portfolios and hedge funds. Our DealerAxess® trading service allows dealers to trade fixed-income securities and credit default swaps with each other on our platform. Through our Corporate BondTicker service, we provide fixed-income market data, analytics and compliance tools that help our clients make trading decisions. In addition, through our subsidiary, MarketAxess Technologies Inc., 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 information and user access fees, investment income, technology products and services 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;

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

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

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

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

Competitive Landscape

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

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

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

Regulatory Environment

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

Our U.S. subsidiary, MarketAxess Corporation, is a registered broker-dealer with the SEC and is a member of FINRA. Our U.K. subsidiary, MarketAxess Europe Limited, is registered as a Multilateral Trading Facility dealer with the FSA in the U.K. MarketAxess Canada Limited, a Canadian subsidiary that we incorporated in May 2003, is registered as an Alternative Trading System dealer under the Securities Act of Ontario and is a member of the Investment Industry Regulatory Organization of Canada. Relevant regulations prohibit repayment of borrowings from these subsidiaries or their affiliates, paying cash dividends, making loans to us or our affiliates or otherwise entering into transactions that result in a significant reduction in regulatory net capital or financial resources, without prior notification to or approval from such regulated entity s principal regulator.

As a public company, we are subject to the reporting requirements of the Securities Exchange Act of 1934, the Sarbanes-Oxley Act of 2002 and NASDAQ rules promulgated in response to the Sarbanes-Oxley Act. The requirements of these rules and regulations have increased our legal and financial compliance costs, made some activities more difficult, time-consuming or costly and may also

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place a strain on our systems and resources. In order to maintain and improve the effectiveness of our disclosure controls and procedures and internal control over financial reporting, significant resources and management oversight are required.

Rapid Technological Changes

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

Trends in Our Business

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

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

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

The past 15 months has been a period of significant turmoil in the U.S. and European credit markets, especially in short-term funding and floating rate note instruments. A widespread retrenchment in the credit markets resulted in increased credit spreads and significantly higher credit spread volatility across a wide range of asset classes and a substantial decline in average daily trading volume of U.S. high-grade corporate bonds. The average daily trading volume of U.S. high-grade corporate bonds for the three months ended September 30, 2008 decreased by 16.3% compared to the three months ended September 30, 2007. We believe that a resultant lack of liquidity in the credit markets led institutional investors to reduce overall bond trading activity and conduct a higher percentage of their trades directly with their broker-dealer counterparties via the telephone, resulting in lower volumes on our platform. We also believe that a stabilization in credit market conditions, at higher overall levels of credit spreads, is likely to favorably impact the volume of trades conducted over our platform.

We have historically earned a substantial portion of our commissions and overall revenues from broker-dealer clients that are (or whose affiliates are) our stockholders. For 2008, a total of three dealers, and for 2007, a total of seven dealers, were considered to be Stockholder Broker-Dealer Clients. As a result of the reduction in the number of our Stockholder Broker-Dealer Clients due to the sale of shares of our common stock by several of our founding dealers, the percentage of our revenues derived from such clients has been declining. For the nine months ended September 30, 2008, the percentage decreased to 15.2% from 37.3% for the nine months ended September 30, 2007. Affiliates of most of our Stockholder Broker-Dealer Clients are also among our institutional investor clients. A table detailing the amount of our revenues generated by the Stockholder Broker-Dealer Clients, and their respective affiliates, is provided below for the three and nine months ended September 30, 2008 and 2007.

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	($ in thousands)			
Commissions	$ 3,094	$ 6,993	$ 9,695	$ 24,263
Information and user access fees	81	218	207	595
Investment income	310	474	786	1,388
Technology products and services	3		25	
Other	45	150	132	352
	$ 3,533	$ 7,835	$ 10,845	$ 26,598
Percentage of total revenues	15.6%	35.3%	15.2%	37.3%

Commission Revenue Trends

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

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

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

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

Other Revenue Trends

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

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.

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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.

Technology Products and Services. Technology products and services includes software licenses, maintenance and support services and professional consulting services, On March 5, 2008, we 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. In November 2007, we acquired certain assets and assumed certain obligations of Trade West Systems, LLC (TWS), a Utah-based financial software and technology services provider focused on providing gateway adapters for connecting order management systems and trading systems to fixed-income trading venues.

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

Expense Trends

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, severance, 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.

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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 U.S. generally accepted accounting principles, 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. Other than the expansion of our revenue recognition policy to embody additional products and services from our Greenline acquisition, there were no significant changes to our critical accounting policies and estimates during the nine months ended September 30, 2008, as compared to those we disclosed in Management s Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2007.

Segment Results

As an electronic, multi-dealer to client 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 September 30,		Nine Months Ended September 30,	
	2008	**2007**	**2008**	**2007**
Trading Volume Data (in billions)				
U.S. high-grade	$ 27.5	$ 39.9	$ 109.0	$ 168.3
European high-grade	8.6	14.8	28.4	66.9
Other	12.9	21.0	45.9	56.4
Total	$ 49.0	$ 75.7	$ 183.3	$ 291.6
Number of U.S. Trading Days	64	63	189	188
Number of U.K. Trading Days	65	64	190	189

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 $1.4 billion and $2.6 billion for the three months ended September 30, 2008 and 2007, respectively, and $6.3 billion and $12.6 billion for the nine months ended September 30, 2008 and 2007, 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.

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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 September 30, 2008 and 2007, respectively) and our broker-dealer clients as of September 30, 2008 and 2007 were as follows:

	Nine Months Ended September 30,	
	2008	**2007**
Institutional Investor Clients:		
U.S. products	460	474
European products	188	217
Total	648	691
Broker-Dealer Clients	49	30

Results of Operations

Three Months Ended September 30, 2008 Compared to Three Months Ended September 30, 2007

Overview

Total revenues increased by $0.5 million or 2.2% to $22.7 million for the three months ended September 30, 2008, from $22.2 million for the three months ended September 30, 2007. This increase in total revenues was primarily due to an increase in technology products and services revenues of $2.6 million offset by a decline in U.S. high-grade revenues of $1.2 million, European high-grade revenues of $0.5 million and investment income of $0.4 million. Technology products and services revenues reflect the impact of the Greenline and TWS acquisitions.

Total expenses increased by $2.0 million or 10.9% to $20.6 million for the three months ended September 30, 2008, from $18.6 million for the three months ended September 30, 2007. The Greenline and TWS acquisitions increased expenses by $3.3 million, including $1.5 million of employee compensation and benefits. The $2.0 million increase in total expenses was primarily due to higher employee compensation and benefits of $0.9 million and depreciation and amortization of $0.8 million.

Income before taxes decreased by $1.5 million or 42.4% to $2.1 million for the three months ended September 30, 2008, from $3.6 million for the three months ended September 30, 2007. Net income decreased by $0.9 million or 37.0% to $1.5 million for the three months ended September 30, 2008, from $2.4 million for three months ended September 30, 2007.

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Revenues

Our revenues for the three months ended September 30, 2008 and 2007, and the resulting dollar and percentage changes, were as follows:

	Three Months Ended September 30,					
	2008		2007			
	$	% of Revenues	$	% of Revenues	$ Change	% Change
	($ in thousands)					
Commissions						
U.S. high-grade	$ 10,777	47.5%	$ 11,982	54.0%	$ (1,205)	(10.1)%
European high-grade	4,427	19.5	4,889	22.0	(462)	(9.4)
Other	2,015	8.9	2,107	9.5	(92)	(4.4)
Total commissions	17,219	75.9	18,978	85.5	(1,759)	(9.3)
Information and user access fees	1,562	6.9	1,535	6.9	27	1.8
Investment income	963	4.2	1,332	6.0	(369)	(27.7)
Technology products and services	2,646	11.7	50	0.2	2,596	5,192.0
Other	291	1.3	303	1.4	(12)	(4.0)
Total revenues	$ 22,681	100.0%	$ 22,198	100.0%	$ 483	2.2%

Commissions. Total commissions decreased by $1.8 million or 9.3% to $17.2 million for the three months ended September 30, 2008 from $19.0 million for the three months ended September 30, 2007. The following table shows the extent to which the decrease in commissions for the three months ended September 30, 2008 was attributable to changes in transaction volumes, transaction fees per million, monthly distribution fees and DealerAxess® minimum fees:

	Change from Three Months Ended September 30, 2007			
	U.S. High-Grade	European High-Grade	Other	Total
	(In thousands)			
Volume decrease	$ (1,171)	$ (616)	$ (814)	$ (2,600)
Transaction fee per million increase	652	11	722	1,384
Monthly distribution fees (decrease) increase	(520)	143		(377)
DealerAxess® minimum fees decrease	(166)			(166)
Total commissions decrease	$ (1,205)	$ (462)	$ (92)	$ (1,759)

Our average fees per million for the three months ended September 30, 2008 and 2007 were as follows:

	Three Months Ended September 30,	
	2008	2007
Average Fee Per Million		
U.S. high-grade		
Total	$ 392	$ 300

Transaction	$ 118	$ 95
European high-grade		
Total	$ 516	$ 330
Transaction	$ 100	$ 99
Other	$ 156	$ 100
All Products	$ 352	$ 251

U.S. high-grade volume decreased by 31.0% for the three months ended September 30, 2008, compared to the three months ended September 30, 2007. 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 7.8% for the three months ended September 30, 2007 to 6.4% for the three months ended September 30, 2008, coupled with a decline in overall market volume as measured by FINRA TRACE. Estimated FINRA TRACE U.S. high-grade volume decreased by 16.3% from $512.7 billion for the three months ended September 30, 2007 to $429.3 billion for the three months ended September 30, 2008. We believe that the credit market turmoil has negatively impacted overall FINRA TRACE volume and the share of that volume transacted over our platform. The U.S. high-grade distribution fees were $7.5 million for the three months ended September 30, 2008, compared to $8.0 million for the three months ended September 30, 2007. We expect the U.S. high-grade distribution fees to decrease as a result of the recent merger and bankruptcy activity involving several of our broker-dealer clients. The DealerAxess® monthly minimum fees were zero and $0.2 million for the three months ended September 30, 2008 and 2007, respectively. The majority of the DealerAxess® high-grade minimum fee commitments expired as of June 30, 2007. The total U.S. high-grade average fee per million is calculated for each period presented using both the transaction fees and the monthly distribution fees, including the DealerAxess® monthly minimum fees, paid by our broker-dealer clients. The U.S. high-grade average transaction fee per million increased from $95 per million for the three months ended September 30, 2007 to $118 per million for the three months ended September 30, 2008 primarily due to the longer maturity of trades executed on the platform, for which we charge higher commissions.

European high-grade volume decreased by 41.8% for the three months ended September 30, 2008, compared to the three months ended September 30, 2007. During the third quarter of 2008, we believe that the European credit markets experienced market conditions similar to those experienced in the U.S. On June 1, 2007, we introduced a new fee plan for European high-grade corporate bond trades. Similar to the U.S. high-grade plan, the new European high-grade corporate bond fee plan incorporates a monthly distribution fee and a transaction fee that is dependent on the type of bond traded and the maturity of the issue. The European high-grade distribution fee was $3.6 million for the three months ended September 30, 2008, compared to $3.4 million for the three months ended September 30, 2007. The total European 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 European high-grade average transaction fee per million increased from $99 per million for the three months ended September 30, 2007 to $100 per million for the three months ended September 30, 2008.

Other volume decreased by 38.6% for the three months ended September 30, 2008, compared to the three months ended September 30, 2007. The decrease was primarily due to lower emerging market, credit default swap and agencies volume. Other average fee per million increased from $100 per million for the three months ended September 30, 2007 to $156 for the three months ended September 30, 2008, primarily due to lower volume in products with lower fees per million.

Information and User Access Fees. Information and user access fees increased by 1.8% to $1.6 million for the three months ended September 30, 2008 from $1.5 million for the three months ended September 30, 2007.

Investment Income. Investment income decreased by $0.4 million or 27.7% to $1.0 million for the three months ended September 30, 2008 from $1.3 million for the three months ended September 30, 2007. The decrease was due to lower interest rates.

Technology Products and Services. Technology products and services revenues increased to $2.6 million for the three months ended September 30, 2008 from $0.1 million for the three months ended September 30, 2007. The increase was a result of the Greenline and TWS acquisitions.

Other. Other revenues were $0.3 million for both the three months ended September 30, 2008 and 2007.

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Expenses

Our expenses and expenses as a percentage of revenues for the three months ended September 30, 2008 and 2007, and the resulting dollar and percentage changes, were as follows:

	Three Months Ended September 30,					
	2008		2007			
	$	% of Revenues	$	% of Revenues	$ Change	% Change
	($ in thousands)					
Employee compensation and benefits	$ 11,173	49.3%	$ 10,258	46.2%	$ 915	8.9%
Depreciation and amortization	2,494	11.0	1,686	7.6	808	47.9
Technology and communications	2,007	8.8	1,897	8.5	110	5.8
Professional and consulting fees	1,822	8.0	1,883	8.5	(61)	(3.2)
Occupancy	660	2.9	869	3.9	(209)	(24.1)
Marketing and advertising	646	2.8	481	2.2	165	34.3
General and administrative	1,781	7.9	1,481	6.7	300	20.3
Total expenses	$ 20,583	90.7%	$ 18,555	83.6%	$ 2,028	10.9%

Employee Compensation and Benefits. Employee compensation and benefits increased by $0.9 million or 8.9% to $11.2 million for the three months ended September 30, 2008 from $10.3 million for the three months ended September 30, 2007. This increase was primarily attributable to higher wages of $0.7 million, severance costs of $0.7 million and stock-based compensation expense of $0.5 million, offset by reduced incentive compensation of $1.1 million. The higher wages primarily resulted from the Greenline and TWS acquisitions. The severance costs were attributable to a reduction in headcount in September 2008 in response to the credit market conditions.

Depreciation and Amortization. Depreciation and amortization expense increased by $0.8 million or 47.9% to $2.5 million for the three months ended September 30, 2008 from $1.7 million for the three months ended September 30, 2007. During the third quarter of 2008, the Company determined that the technology, customer relationships and tradename intangible assets recognized in connection with the TWS acquisition were impaired. A charge of $0.7 million was recorded to reflect negative current period operating results and reduced revenue expectations for connectivity solutions principally delivered to broker-dealers. For the three months ended September 30, 2008 and 2007, we capitalized $0.5 million and $0.9 million, respectively, of software development costs, and $0.7 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 5.8% to $2.0 million for the three months ended September 30, 2008 from $1.9 million for the three months ended September 30, 2007. This increase was attributable to an increase in the purchase of market and production data.

Professional and Consulting Fees. Professional and consulting fees decreased by $0.1 million or 3.2% to $1.8 million for the three months ended September 30, 2008 from $1.9 million for the three months ended September 30, 2007. The decrease was principally due to lower legal expense.

Occupancy. Occupancy costs decreased by $0.2 million or 24.1% to $0.7 million for the three months ended September 30, 2008 from $0.9 million for the three months ended September 30, 2007.

Marketing and Advertising. Marketing and advertising expense increased by $0.2 million or 34.3% to $0.6 million for the three months ended September 30, 2008 from $0.5 million for the three months ended September 30, 2007, primarily due to higher advertising and promotion expenses.

General and Administrative. General and administrative expense increased by $0.3 million or 20.3% to $1.8 million for the three months ended September 30, 2008 from $1.5 million for the three months ended September 30, 2007, primarily due to increased charges for doubtful accounts of $0.2 million and non-sales related travel and entertainment of $0.2 million.

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Provision for Income Tax. For the three months ended September 30, 2008 and 2007, we recorded an income tax provision of $0.6 million and $1.2 million, respectively. The decrease in the tax provision was primarily attributable to the $1.5 million decline 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 three months ended September 30, 2008 was 27.6% compared to 33.8% for the three months ended September 30, 2007. The 2008 effective tax rate reflects a higher portion of earnings generated in lower tax rate jurisdictions. 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.

Nine Months Ended September 30, 2008 Compared to Nine Months Ended September 30, 2007

Overview

Total revenues were $71.3 million for both the nine months ended September 30, 2008 and 2007. A decline in U.S. high-grade revenues of $4.5 million and investment income of $1.1 million was offset by an increase in technology products and services revenues of $5.4 million. Technology products and services revenues reflect the impact of the Greenline and TWS acquisitions.

Total expenses increased by $4.3 million or 7.6% to $61.4 million for the nine months ended September 30, 2008, from $57.1 million for the nine months ended September 30, 2007. The Greenline and TWS acquisitions increased expenses by $6.9 million, including $3.2 million in employee compensation and benefits. The $4.3 million increase in total expenses was primarily due to higher employee compensation and benefits of $1.0 million, professional and consulting fees of $1.0 million and general and administrative expenses of $0.9 million.

Income before taxes decreased by $4.3 million or 30.6% to $9.8 million for the nine months ended September 30, 2008, from $14.2 million for the nine months ended September 30, 2007. Net income decreased by $2.4 million or 29.1% to $6.0 million for the nine months ended September 30, 2008, from $8.4 million for nine months ended September 30, 2007.

Revenues

Our revenues for the nine months ended September 30, 2008 and 2007, and the resulting dollar and percentage changes, were as follows:

	Nine Months Ended September 30,					
	2008		2007			
	$	% of Revenues	$	% of Revenues	$ Change	% Change
	($ in thousands)					
Commissions						
U.S. high-grade	$ 35,733	50.1%	$ 40,196	56.4%	$ (4,463)	(11.1)%
European high-grade	14,136	19.8	14,099	19.8	37	0.3
Other	6,783	9.5	6,832	9.6	(49)	(0.7)
Total commissions	56,652	79.5	61,127	85.8	(4,475)	(7.3)
Information and user access fees	4,485	6.3	4,357	6.1	128	2.9
Investment income	2,715	3.8	3,812	5.3	(1,097)	(28.8)
Technology products and services	6,089	8.5	650	0.9	5,439	836.8
Other	1,316	1.8	1,321	1.9	(5)	(0.4)
Total revenues	$ 71,257	100.0%	$ 71,267	100.0%	$ (10)	(0.0)%

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Commissions. Total commissions decreased by $4.5 million or 7.3% to $56.7 million for the nine months ended September 30, 2008 from $61.1 million for the nine months ended September 30, 2007. The following table shows the extent to which the decrease in commissions for the nine months ended September 30, 2008 was attributable to changes in transaction volumes, transaction fees per million, monthly distribution fees and DealerAxess® minimum fees:

	Change from Nine Months Ended September 30, 2007			
	U.S. High-Grade	European High-Grade	Other	Total
	(In thousands)			
Volume decrease	$ (4,685)	$ (5,496)	$ (1,278)	$ (11,459)
Transaction fee per million increase (decrease)	3,748	(1,058)	1,229	3,919
Monthly distribution fees (decrease) increase	(106)	6,591		6,485
DealerAxess® minimum fees decrease	(3,420)			(3,420)
Total commissions (decrease) increase	$ (4,463)	$ 37	$ (49)	$ (4,475)

Our average fees per million for the nine months ended September 30, 2008 and 2007 were as follows:

	Nine Months Ended September 30,	
	2008	2007
Average Fee Per Million		
U.S. high-grade		
Total	$ 328	$ 239
Transaction	$ 113	$ 79
European high-grade		
Total	$ 497	$ 211
Transaction	$ 106	$ 143
Other	$ 148	$ 121
All Products	$ 309	$ 210

U.S. high-grade volume decreased by 35.2% for the nine months ended September 30, 2008, compared to the nine months ended September 30, 2007. 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 9.5% for the nine months ended September 30, 2007 to 7.1% for the nine months ended September 30, 2008, coupled with a decline in overall market volume as measured by FINRA TRACE. Estimated FINRA TRACE U.S. high-grade volume decreased by 13.5% from $1,770.7 billion for the nine months ended September 30, 2007 to $1,531.9 billion for the nine months ended September 30, 2008. We believe that the credit market turmoil has negatively impacted overall FINRA TRACE volume and the share of that volume transacted over our platform. The U.S. high-grade distribution fees were $23.4 million for the nine months ended September 30, 2008, compared to $23.5 million for the nine months ended September 30, 2007. The DealerAxess® monthly minimum fees were zero and $3.4 million for the nine months ended September 30, 2008 and 2007, respectively. The majority of the DealerAxess® high-grade minimum fee commitments expired as of June 30, 2007. The U.S. high-grade average transaction fee per million increased from $79 per million for the nine months ended September 30, 2007 to $113 per million for the nine months ended September 30, 2008 primarily due to the longer maturity of trades executed on the platform, for which we charge higher commissions.

European high-grade volume decreased by 57.5% for the nine months ended September 30, 2008, compared to the nine months ended September 30, 2007. During the first nine months of 2008, we believe that the European credit markets experienced market conditions similar to those experienced in the U.S. On June 1, 2007, we introduced a new fee plan for European high-grade corporate bond trades. Similar to the U.S. high-grade plan, the new European high-grade corporate bond fee plan incorporates a monthly distribution fee and a transaction fee that is dependent on the type of bond traded and the maturity of the issue. The European high-grade distribution fee was $11.1 million for the nine months ended September 30, 2008, compared to $4.5 million for the nine months ended September 30, 2007. The European high-grade average transaction fee per million decreased from $143 per million for the nine months ended September 30, 2007 to $106 per million for the nine months ended September 30, 2008 principally due to the introduction of the new European high-grade fee plan.

Other volume decreased by 18.7% for the nine months ended September 30, 2008, compared to the nine months ended September 30, 2007. The decrease was primarily due to lower emerging markets, credit default swap and agencies volume. Other average fee per million increased from $121 per million for the nine months ended September 30, 2007 to $148 for the three months ended September 30, 2008, primarily due to lower volume in products with lower fees per million.

Information and User Access Fees. Information and user access fees increased by $0.1 million or 2.9% to $4.5 million for the nine months ended September 30, 2008 from $4.4 million for the nine months ended September 30, 2007.

Investment Income. Investment income decreased by $1.1 million or 28.8% to $2.7 million for the nine months ended September 30, 2008 from $3.8 million for the nine months ended September 30, 2007. The decrease was due to lower total cash and cash equivalents and securities available-for-sale resulting from the Greenline acquisition and lower interest rates.

Technology Products and Services. Technology products and services revenues increased by $5.4 million or 836.8% to $6.1 million for the nine months ended September 30, 2008 from $0.7 million for the nine months ended September 30, 2007. The increase was a result of the Greenline and TWS acquisitions.

Other. Other revenues was $1.3 million for both the nine months ended September 30, 2008 and 2007.

Expenses

Our expenses and expenses as a percentage of revenues for the nine months ended September 30, 2008 and 2007, and the resulting dollar and percentage changes, were as follows:

	Nine Months Ended September 30,					
	2008		2007			
	$	% of Revenues	$	% of Revenues	$ Change	% Change
	($ in thousands)					
Employee compensation and benefits	$ 33,767	47.4%	$ 32,771	46.0%	$ 996	3.0%
Depreciation and amortization	6,090	8.5	5,476	7.7	614	11.2
Technology and communications	6,160	8.6	5,595	7.9	565	10.1
Professional and consulting fees	6,496	9.1	5,505	7.7	991	18.0
Occupancy	2,166	3.0	2,423	3.4	(257)	(10.6)
Marketing and advertising	1,912	2.7	1,364	1.9	548	40.2
General and administrative	4,844	6.8	3,982	5.6	862	21.6
Total expenses	$ 61,435	86.2%	$ 57,116	80.1%	$ 4,319	7.6%

Employee Compensation and Benefits. Employee compensation and benefits increased by $1.0 million or 3.0% to $33.8 million for the nine months ended September 30, 2008 from $32.8 million for the nine months ended September 30, 2007. This increase was primarily attributable to higher wages of $1.8 million, severance costs of $1.1 million and stock-based compensation expense of $1.2 million, offset by reduced incentive compensation of $3.2 million. The higher wages primarily resulted from the Greenline and TWS acquisitions. The severance costs were attributable to a reduction in headcount during 2008 in response to the credit market conditions.

Depreciation and Amortization. Depreciation and amortization expense increased by $0.6 million or 11.2% to $6.1 million for the nine months ended September 30, 2008 from $5.5 million for the nine months ended September 30, 2007. An increase in amortization of intangible assets of $1.0 million and TWS impairment charge of $0.7 million was offset by a decline in depreciation and amortization of hardware and software development costs. For the nine months ended September 30, 2008 and 2007, we capitalized $1.9 million and $2.6 million, respectively, of software development costs, and $1.3 million and $1.1 million, respectively, of computer and related equipment purchases. For the nine months ended September 30, 2008, $8.3 million of definite-life intangibles were created in connection with the Greenline acquisition.

Technology and Communications. Technology and communications expense increased by $0.6 million or 10.1% to $6.2 million for the nine months ended September 30, 2008 from $5.6 million for the nine months ended September 30, 2007. This increase was attributable to higher office telecommunication costs and the purchase of market data.

Professional and Consulting Fees. Professional and consulting fees increased by $1.0 million or 18.0% to $6.5 million for the nine months ended September 30, 2008 from $5.5 million for the nine months ended September 30, 2007. The increase was principally due to higher information technology consultant costs of $0.7 million and legal fees of $0.4 million, offset by lower recruiting fees of $0.5 million.

Occupancy. Occupancy costs decreased by $0.3 million or 10.6% to $2.2 million for the nine months ended September 30, 2008 from $2.4 million for the nine months ended September 30, 2007.

Marketing and Advertising. Marketing and advertising expense increased by $0.5 million or 40.2% to $1.9 million for the nine months ended September 30, 2008 from $1.4 million for the nine months ended September 30, 2007, primarily due to higher promotional and other marketing expenses and travel and entertainment expenses.

General and Administrative. General and administrative expense increased by $0.9 million or 21.6% to $4.8 million for the nine months ended September 30, 2008 from $4.0 million for the nine months ended September 30, 2007, primarily due to increased charges for doubtful accounts of $0.6 million and non-sales related travel and entertainment of $0.3 million.

Provision for Income Tax. For the nine months ended September 30, 2008 and 2007, we recorded an income tax provision of $3.9 million and $5.7 million, respectively. The decrease in the tax provision was primarily attributable to the $4.3 million decline 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 nine months ended September 30, 2008 was 39.3% compared to 40.6% for the nine months ended September 30, 2007. The 2008 effective tax rate reflects a higher portion of earnings generated in lower tax rate jurisdictions. The 2007 effective tax rate includes an adjustment to the deferred tax balance of $0.5 million to reflect the tax rate anticipated to be in effect when temporary differences are expected to reverse, as well as a change in enacted state tax rate. Our consolidated effective tax rate can vary from period to period depending on, among other factors, the geographic and business mix of our earnings and changes in tax legislation and tax rates. Due to our net deferred tax asset balance, a decrease in tax rates results in a reduction in our deferred tax balance and an increase in tax expense.

Liquidity and Capital Resources

During the past three years, we have met our funding requirements through cash on hand, internally generated funds and, most recently, the issuance of Series B Preferred Stock. Cash and cash equivalents and securities available-for-sale totaled $133.0 million at September 30, 2008. Other than a capital lease obligation amounting to $0.6 million as of September 30, 2008, we have no long-term or short-term debt and do not maintain bank lines of credit.

Our cash flows for the periods presented below were as follows:

	Nine Months Ended September 30,	
	2008	2007
	(In thousands)	
Net cash provided by operating activities	$ 17,849	$ 22,330
Net cash (used in) investing activities	(5,239)	(8,145)
Net cash provided by (used in) financing activities	30,352	(21,668)
Effect of exchange rate changes on cash	(711)	(167)
Net increase (decrease) for the period	$ 42,251	$ (7,650)

Operating Activities

Net cash provided by operating activities of $17.8 million for the nine months ended September 30, 2008 consisted of net income of $6.0 million, adjusted for non-cash charges, primarily consisting of depreciation and amortization of $6.1 million, stock-based compensation expense of $5.3 million and deferred taxes of $3.9 million, offset by an increase in cash used for working capital of $4.3 million. The use of working capital primarily resulted from a decrease in accrued employee compensation of $6.0 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 $2.6 million, offset by a decrease in accounts receivable of $2.6 million.

Net cash provided by operating activities of $22.3 million for the nine months ended September 30, 2007 consisted of net income of $8.4 million, adjusted for non-cash charges, primarily consisting of depreciation and amortization of $5.5 million, stock-based compensation expense of $4.1 million and deferred taxes of $5.4 million, offset by an increase in cash used for working capital of $1.3 million. The use of working capital primarily resulted from an increase in accounts receivable of $2.5 million and decrease in accrued employee compensation of $1.3 million partially offset by an increase in accounts payable, accrued expense and other liabilities of $1.4 million.

Investing Activities

Net cash used in investing activities of $5.2 million for the nine months ended September 30, 2008 primarily consisted of $34.9 million for the acquisition of Greenline, net maturities of securities available-for-sale of $32.8 million, purchases of furniture, equipment and leasehold improvements of $1.3 million and capitalization of software development costs of $1.9 million.

Net cash used in investing activities of $8.1 million for the nine months ended September 30, 2007 primarily consisted of net purchases of securities available-for-sale of $4.4 million, purchases of furniture, equipment and leasehold improvements of $1.1 million and capitalization of software development costs of $2.6 million.

Financing Activities

Net cash provided by financing activities of $30.4 million for the nine months ended September 30, 2008 primarily consisted of the net proceeds from the issuance of the Series B Preferred Stock and related common stock purchase warrants of $33.5 million, offset by the purchase of treasury stock of $2.8 million.

Net cash used in financing activities of $21.7 million for the nine months ended September 30, 2007 primarily consisted of the purchase of treasury stock of $27.4 million, offset by proceeds from the exercise of stock options and issuance of restricted stock of $5.1 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.

As of September 30, 2008, we had $7.0 million invested in municipal auction rate securities with a face value of $7.7 million. Liquidity for these securities is typically provided by an auction process that resets the applicable interest rate at pre-determined 35-day intervals. Auctions for these securities began to fail in February 2008 and, as a result, we have been unable to liquidate these holdings. On October 16, 2008, one of our MARS was redeemed by the issuer at its par value of $1.0 million. On October 29, 2008, we entered into an agreement with the investment manager used to purchase the three remaining MARS, in which the investment

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manager agreed to buy the MARS at their par value of $6.7 million. This transaction is expected to settle during the fourth quarter of 2008, at which time we will have no investments in MARS.

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 the registrant s principal regulator. The capital structures of our subsidiaries are designed to provide each with capital and liquidity consistent with its business and regulatory requirements. As of September 30, 2008, MarketAxess Corporation had net capital of $20.5 million, which was $19.7 million in excess of its required minimum net capital of $0.8 million. MarketAxess Europe Limited had financial resources, as defined by the FSA, of $19.4 million, which was $16.3 million in excess of its required financial resources of $3.1 million.

Our U.S. subsidiary, MarketAxess Corporation, operates an anonymous matching service for its broker-dealer clients. MarketAxess Corporation executes bond trades on a riskless principal basis, which are cleared and settled by an independent clearing broker. Under a securities clearing agreement with the independent clearing broker, MarketAxess Corporation maintains a collateral deposit with the clearing broker in the form of cash or U.S. government securities. As of September 30, 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 September 30, 2008, MarketAxess Corporation had not recorded any liabilities with regard to this right.

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 September 30, 2008, 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	$ 6,642	$ 558	$ 3,276	$ 1,166	$ 1,642
Capital lease	798	39	320	320	119
Foreign currency forward contract	22,661	22,661			
	$ 30,101	$ 23,258	$ 3,596	$ 1,486	$ 1,761

As of September 30, 2008, we had unrecognized tax benefits of $2.7 million. Due to the nature of the underlying positions, it is not currently possible to schedule the future payment obligations by period. In addition, in connection with the acquisition of Greenline, the sellers are eligible to receive up to an aggregate of $3.0 million in cash, subject to Greenline attaining certain earn-out targets over the next two years. The amount of the earn-out ultimately payable, if any, is currently unknown.

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. These events could have a material adverse effect on our business, financial condition and results of operations.

As of September 30, 2008, we had securities available-for-sale of $18.0 million. 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 theses 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 September 30, 2008, our cash and cash equivalents and securities available-for-sale amounted to $133.0 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. subsidiaries. As of September 30, 2008, the notional value of our foreign currency forward contracts was $22.7 million. We do not speculate in any derivative instruments.

Credit Risk

We execute riskless principal transactions between our broker-dealer clients through our subsidiary, MarketAxess Corporation. 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 broker-dealer clients executing bond trades on our platform. We are exposed to the risk that third parties that owe us money, securities or other assets will not perform their obligations. These parties may default on their obligations to us due to bankruptcy, lack of liquidity, operational failure or other reasons. Adverse movements in the prices of securities that are the subject of these transactions can increase our risk. Where the unmatched position or failure to deliver is prolonged, there may also be regulatory capital charges required to be taken by us. 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 September 30, 2008. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures are effective to ensure that information required to be disclosed by MarketAxess in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms, and to ensure that information is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

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(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 September 30, 2008 identified in connection with the evaluation thereof by our management, including the Chief Executive Officer and Chief Financial Officer, that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II Other Information

Item 1. *Legal Proceedings*

In January 2007, two former employees commenced arbitration proceedings against MarketAxess Corporation before FINRA arising out of the expiration of certain vested and unvested stock options and unvested restricted shares issued to them. In April 2007, one of those former employees brought a separate FINRA arbitration against MarketAxess Holdings Inc. based on the same claim he had filed against MarketAxess Corporation. The arbitrations filed by this former employee were consolidated before FINRA and, by an award served on the parties on June 20, 2008, the FINRA arbitration panel denied the former employee s claims, totaling approximately $3.6 million, in their entirety. The period to file a motion to vacate the award expired in September 2008.

The claim of the other former employee, which is pending before FINRA, is that we wrongfully failed to accelerate the vesting of his then unvested options and restricted shares upon his termination and also failed to waive the 90-day time period within which he was 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 this former employee total approximately $0.9 million, plus statutory interest, and an unstated amount of punitive damages, costs and expenses. The FINRA hearing is scheduled for February 2009. We have vigorously defended the claims brought against us and MarketAxess Corporation. 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 accompanying 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: our dependence on our broker-dealer clients, three of which were also our stockholders as of January 1, 2008; 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; our limited operating history; 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; 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, filed on March 3, 2008. There have been no material changes to the risk factors described in the Form 10-K.

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

Recent Sales of Unregistered Securities

During June and July 2008, we issued 35,000 shares of Series B Preferred Stock, which are convertible into an aggregate of 3,500,000 shares of our common stock, and warrants to purchase an aggregate of 700,000 shares of common stock at an exercise price of $10.00 per share (the Issuance). The Issuance was completed through a private placement to accredited investors and is exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended (the Securities Act). The shares of Series B Preferred Stock, the shares of common stock issuable upon the conversion of the Series B Preferred Stock, the warrants and the shares of common stock issuable upon the exercise of the warrants have not been registered under the Securities Act or any state securities laws. Unless so registered, such securities may not be offered or sold in the United States absent an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and any applicable state securities laws. We did not engage in any general solicitation or advertising with regard to the Issuance and did not offer the securities to the public in connection with the Issuance. Financial Technology Partners LP and FTP Securities LLC (FT Partners) acted as placement agent for this transaction. We paid FT Partners a fee of 3% of the gross proceeds of the

Issuance. We intend to use the proceeds of the offering for general corporate purposes, which may include acquisitions.

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Issuer Purchases of Equity Securities

On October 26, 2006, our Board of Directors authorized a stock repurchase program for up to $40.0 million of our common stock. Shares repurchased under the program will be held in treasury for future use. The share repurchase program was completed in January 2008. A total of 2,864,120 shares were repurchased at an aggregate cost of $40.0 million over the life of the repurchase program.

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

None

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

None

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: October 31, 2008	By: /s/ RICHARD M. MCVEY Richard M. McVey Chief Executive Officer (principal executive officer)
Date: October 31, 2008	By: /s/ JAMES N.B. RUCKER James N. B. Rucker Chief Financial Officer (principal financial and accounting officer)