MARKETAXESS HOLDINGS INC
Form 10-Q
July 27, 2011

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

(Mark One)

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

For the quarterly period ended June 30, 2011

or

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

For the transition period from __________ to __________

Commission File Number 001-34091

MARKETAXESS HOLDINGS INC.

(Exact name of registrant as specified in its charter)

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

(212) 813-6000

(Registrant s telephone number, including area code)

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

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

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

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

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

As of July 26, 2011, the number of shares of the Registrant s voting common stock outstanding was 35,418,713 and the number of shares of the Registrant s non-voting common stock was 2,585,654.

MARKETAXESS HOLDINGS INC.
FORM 10-Q FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2011
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PART I Financial Information

Item 1. ***Financial Statements***

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

	As of	
	June 30, 2011	**December 31, 2010**
	(In thousands, except share and per share amounts)	
ASSETS		
Cash and cash equivalents	$ 135,768	$ 124,994
Securities available-for-sale, at fair value	75,696	72,552
Accounts receivable, net of allowance of $77 and $427 as of June 30, 2011 and December 31, 2010, respectively	34,494	25,682
Deferred tax assets, net	14,296	19,813
Goodwill and intangible assets, net of accumulated amortization	35,278	36,012
Furniture, equipment, leasehold improvements and capitalized software, net of accumulated depreciation and amortization	13,409	12,545
Prepaid expenses and other assets	12,326	7,923
Total assets	$ 321,267	$ 299,521
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities		
Accrued employee compensation	$ 11,931	$ 17,791
Deferred revenue	4,443	4,571
Accounts payable, accrued expenses and other liabilities	12,036	12,368
Total liabilities	28,410	34,730
Commitments and Contingencies (Note 10)		
Series B Preferred Stock, $0.001 par value, 35,000 shares authorized; zero and 35,000 issued and outstanding as of June 30, 2011 and December 31, 2010, respectively		30,315
Stockholders equity		
Preferred stock, $0.001 par value, 4,855,000 shares authorized, no shares issued and outstanding as of June 30, 2011 and December 31, 2010		
Series A Preferred Stock, $0.001 par value, 110,000 shares authorized, no shares issued and outstanding as of June 30, 2011 and December 31, 2010		
Common stock voting, $0.003 par value, 110,000,000 shares authorized, 36,728,696 shares and 35,945,001 shares issued and 35,424,955 shares and	110	108

31,141,261 shares outstanding as of June 30, 2011 and December 31, 2010, respectively				
Common stock non-voting, $0.003 par value, 10,000,000 shares authorized, 2,585,654 shares issued and outstanding as of June 30, 2011 and December 31, 2010		9		9
Additional paid-in capital		332,121		340,615
Treasury stock Common stock voting, at cost, 1,303,741 shares and 4,803,740 shares as of June 30, 2011 and December 31, 2010, respectively		(18,998)		(70,000)
Accumulated deficit		(18,692)		(34,605)
Accumulated other comprehensive loss		(1,693)		(1,651)
Total stockholders equity		292,857		234,476
Total liabilities and stockholders equity	$	321,267	$	299,521

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

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MARKETAXESS HOLDINGS INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(In thousands, except per share amounts)			
Revenues				
Commissions				
U.S. high-grade	$ 26,830	$ 20,249	$ 53,208	$ 40,025
Eurobond	4,606	4,669	9,223	10,161
Other	7,640	4,542	14,430	8,581
Total commissions	39,076	29,460	76,861	58,767
Technology products and services	3,984	3,251	7,092	6,415
Information and user access fees	1,719	1,722	3,408	3,356
Investment income	310	315	609	606
Other	702	578	1,430	1,066
Total revenues	45,791	35,326	89,400	70,210
Expenses				
Employee compensation and benefits	15,104	14,189	31,372	28,122
Depreciation and amortization	1,627	1,622	3,189	3,238
Technology and communications	2,724	2,353	5,224	4,770
Professional and consulting fees	2,665	1,990	5,537	4,128
Occupancy	708	707	1,474	1,645
Marketing and advertising	1,248	759	2,222	1,387
General and administrative	1,810	1,850	2,811	3,979
Total expenses	25,886	23,470	51,829	47,269
Income before income taxes	19,905	11,856	37,571	22,941
Provision for income taxes	7,968	4,687	14,854	9,071
Net income	$ 11,937	$ 7,169	$ 22,717	$ 13,870
Net income per common share				
Basic	$ 0.32	$ 0.19	$ 0.62	$ 0.37
Diluted	$ 0.30	$ 0.18	$ 0.58	$ 0.35
Cash dividends declared per common share	$ 0.09	$ 0.07	$ 0.18	$ 0.14
Weighted average common shares				
Basic	36,762	33,733	36,635	33,679
Diluted	39,490	39,514	39,396	39,409

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

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MARKETAXESS HOLDINGS INC.
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY
AND ACCUMULATED OTHER COMPREHENSIVE LOSS
FOR THE SIX MONTHS ENDED JUNE 30, 2011
(Unaudited)

	Common Stock Voting	Common Stock Non-Voting	Additional Paid-In Capital	Treasury Stock - Common Stock Voting	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders Equity
	(In thousands)						
Balance at December 31. 2010	$ 108	$ 9	$ 340,615	$ (70,000)	$ (34,605)	$ (1,651)	$ 234,476
Comprehensive income:							
Net income					22,717		22,717
Cumulative translation adjustment and foreign currency exchange hedge, net of tax						(324)	(324)
Unrealized net gain on securities available-for-sale, net of tax						282	282
Total comprehensive income							22,675
Stock-based compensation			3,099				3,099
Exercise of stock options and grants of restricted stock, net of surrenders on stock option exercises and tax on stock vesting	2		1,921				1,923
Cash dividend on common stock					(6,804)		(6,804)
Conversion of Series B Preferred Stock to common stock voting			(20,687)	51,002			30,315
Tax benefit from the exercise of warrants in prior years			4,239				4,239
Windfall tax benefits from stock-based compensation			2,934				2,934
Balance at June 30, 2011	$ 110	$ 9	$ 332,121	$ (18,998)	$ (18,692)	$ (1,693)	$ 292,857

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

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

	Six Months Ended June 30,	
	2011	2010
	(In thousands)	
Cash flows from operating activities		
Net income	$ 22,717	$ 13,870
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,189	3,238
Stock-based compensation expense	3,099	4,500
Deferred taxes	9,777	7,233
Provision for bad debts	(122)	305
Changes in operating assets and liabilities		
(Increase) in accounts receivable	(8,690)	(1,246)
(Increase) in prepaid expenses and other assets	(4,378)	(11)
(Decrease) in accrued employee compensation	(5,860)	(6,649)
(Decrease) increase in deferred revenue	(128)	17
(Decrease) increase in accounts payable, accrued expenses and other liabilities	(195)	1,300
Net cash provided by operating activities	19,409	22,557
Cash flows from investing activities		
Securities available-for-sale:		
Proceeds from maturities	9,873	29,214
Purchases	(12,556)	(31,363)
Purchases of furniture, equipment and leasehold improvements	(1,516)	(3,824)
Capitalization of software development costs	(1,790)	(821)
Other	(25)	77
Net cash (used in) investing activities	(6,014)	(6,717)
Cash flows from financing activities		
Cash dividend on common stock and Series B Preferred Stock	(6,804)	(5,381)
Proceeds from exercise of stock options and grants of restricted stock, net of surrenders on stock option exercises and withholding tax on stock vesting	1,923	(234)
Windfall tax benefits from stock-based compensation	2,934	478
Other	(137)	(8)
Net cash (used in) financing activities	(2,084)	(5,145)
Effect of exchange rate changes on cash and cash equivalents	(537)	(510)
Cash and cash equivalents		
Net increase for the period	10,774	10,185
Beginning of year	124,994	103,341
End of period	$ 135,768	$ 113,526

Supplemental cash flow information				
Cash paid during the period:				
Income taxes paid	$	5,980	$	1,064
Non-cash activity:				
Converion of Series B Preferred Stock to common stock	$	30,315	$	

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

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MARKETAXESS HOLDINGS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Unaudited

1. Organization and Principal Business Activity

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

For 2011 and 2010, JPMorgan Chase & Co. was the Company s sole stockholder broker-dealer client (the Stockholder Broker-Dealer Client). This broker-dealer client constituted a related party of the Company. See Note 7, Related Party.

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, 2010. The consolidated financial information as of December 31, 2010 has been derived from audited financial statements not included herein.

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

Cash and Cash Equivalents

Cash and cash equivalents include cash maintained at major 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. Given this concentration, the Company is exposed to certain credit risk.

Securities Available-for-Sale

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

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The Company assesses whether an other-than-temporary impairment loss on the investments has occurred due to declines in fair value or other market conditions. The portion of an other-than-temporary impairment related to credit loss is recorded as a charge in the Consolidated Statements of Operations. The remainder is recognized in other comprehensive loss if the Company does not intend to sell the security and it is more likely than not that the Company will not be required to sell the security prior to recovery. No charges for other-than-temporary losses were recorded during the six months ended June 30, 2011 and 2010.

Fair Value Financial Instruments

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

Allowance for Doubtful Accounts

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

Depreciation and Amortization

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

Software Development Costs

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

Securities and Cash Provided as Collateral

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

Foreign Currency Translation and Forward Contracts

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

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

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Revenue Recognition

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

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

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

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

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

Revenues from contracts for technology integration consulting services are recognized on the percentage-of-completion method. Percentage-of-completion accounting involves calculating the percentage of services provided during the reporting period compared to the total estimated services to be provided over the duration of the contract. If estimates indicate that a contract loss will occur, a loss provision is recorded in the period in which the loss first becomes probable and reasonably estimable. Contract losses are determined to be the amount by which the estimated direct and indirect costs of the contract exceed the estimated total revenues that will be generated by the contract. There were no contract loss provisions recorded as of June 30, 2011 and 2010. Revenues recognized in excess of billings are recorded as unbilled services within other assets. Billings in excess of revenues recognized are recorded as deferred revenues until revenue recognition criteria are met.

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

Stock-Based Compensation

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

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Income Taxes

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

Business Combinations, Goodwill and Intangible Assets

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

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

Earnings Per Share

For 2010, earnings per share (EPS) was calculated using the two-class method. Basic EPS is computed by dividing the net income attributable to common stock by the weighted-average number of shares of common stock outstanding for the period, including consideration of the two-class method to the extent that participating securities were outstanding during the period. Under the two-class method, undistributed net income is allocated to common stock and participating securities based on their respective right to share in dividends. The Series B Preferred Stock was convertible into shares of common stock and also included a right whereby, upon the declaration or payment of a dividend or distribution on the common stock, a dividend or distribution must also be declared or paid on the Series B Preferred Stock based on the number of shares of common stock into which such securities were convertible at the time. Due to these rights, the Series B Preferred Stock was considered a participating security requiring the use of the two-class method for the computation of basic EPS.

In January 2011, all of the shares of the Series B Preferred Stock were mandatorily and automatically converted into shares of common stock. For 2011, basic EPS is computed by dividing the net income attributable to common stock by the weighted-average number of shares of common stock outstanding during the period.

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 participated equally with the common stock in dividends and unallocated income, diluted EPS under the if-converted method was and is equivalent to the two-class method. For both 2011 and 2010, the weighted-average shares outstanding of common stock reflects the dilutive effect that could occur if convertible securities or other contracts to issue common stock were converted into or exercised for common stock.

Use of Estimates

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

Recent Accounting Pronouncements

In October 2009, the Financial Accounting Standards Board (FASB) issued authoritative guidance on revenue recognition. The guidance required entities to allocate revenue in an arrangement with multiple deliverables using estimated selling prices of the delivered goods and services based on a selling price hierarchy. The guidance also removed tangible products from the scope of software revenue guidance and provides guidance on determining

whether software deliverables in an arrangement that includes a tangible product are covered by the scope of the software revenue guidance. The Company adopted the new revenue recognition guidance effective January 1, 2011 and there was no material impact on the Company s Consolidated Financial Statements.

3. Net Capital Requirements and Customer Protection Requirements

MarketAxess Corporation, a U.S. subsidiary, is a registered broker-dealer with the SEC and is a member of the Financial Industry Regulatory Authority (FINRA). MarketAxess Corporation claims exemption from SEC Rule 15c3-3, as it does not hold customer securities or funds on account, as defined. Pursuant to the Uniform Net Capital Rule under the Securities Exchange Act of 1934, MarketAxess Corporation is required to maintain minimum net capital, as defined, equal to the greater of $100,000 or 6 2/3% of aggregate indebtedness. MarketAxess Europe Limited, a U.K. subsidiary, is registered as a Multilateral Trading Facility with the Financial Services Authority (FSA) in the U.K. MarketAxess Canada Limited, a Canadian subsidiary, is registered as an Alternative Trading System dealer under the Securities Act of Ontario and is a member of the Investment Industry Regulatory Organization of Canada. MarketAxess Europe Limited and MarketAxess Canada Limited are subject to certain financial resource requirements of the FSA and the Ontario Securities Commission, respectively. The following table sets forth the capital requirements, as defined, that the Company s subsidiaries were required to maintain as of June 30, 2011:

	MarketAxess Corporation	MarketAxess Europe Limited	MarketAxess Canada Limited
		(In thousands)	
Net capital	$ 67,079	$ 25,099	$ 425
Minimum net capital required	1,908	3,284	285
Excess net capital	$ 65,171	$ 21,815	$ 140

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

4. Fair Value Measurements

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

	Level 1	Level 2	Level 3	Total
		(In thousands)		
As of June 30, 2011				
Money market funds	$ 107,192	$	$	$ 107,192
Securities available-for-sale:				
U.S. government obligations		51,753		51,753
Municipal securities		21,895		21,895
Corporate bonds		2,048		2,048
Foreign currency forward position		(60)		(60)
	$ 107,192	$ 75,636	$	$ 182,828
As of December 31, 2010				
Money market funds	$ 96,661	$	$	$ 96,661
Securities available-for-sale:				
U.S. government obligations		41,351		41,351
Municipal securities		29,145		29,145
Corporate bonds		2,056		2,056
Foreign currency forward position		(337)		(337)

$	96,661	$	72,215	$		$	168,876

Securities classified within Level 2 were valued using a market approach utilizing prices and other relevant information generated by market transactions involving comparable assets. The foreign currency forward contract is classified within Level 2 as the valuation inputs are based on quoted market prices. There were no financial assets classified within Level 3 during 2011 and 2010.

The Company enters into foreign currency forward contracts with a noncontrolling stockholder broker-dealer client to hedge the exposure to variability in foreign currency cash flows resulting from the net investment in the Company s U.K. subsidiary. The Company assesses each foreign currency forward contract to ensure that it is highly effective at reducing the exposure being hedged. The Company designates each foreign currency forward contract as a hedge, assesses the risk management objective and strategy, including identification of the hedging instrument, the hedged item and the risk exposure and how effectiveness is to be assessed prospectively and retrospectively. These hedges are for a one-month period and are used to limit exposure to foreign currency exchange rate fluctuations. The gross and net fair value liability of $0.1 million and $0.3 million as of June 30, 2011 and December 31, 2010, respectively, is included in accounts payable in the Consolidated Statements of Financial Condition. Gains or losses on foreign currency forward contracts designated as hedges are included in accumulated other comprehensive loss in the Consolidated Statements of Financial Condition. A summary of the foreign currency forward contract is as follows:

	As of	
	June 30, 2011	**December 31, 2010**
	(In thousands)	
Notional value	$ 26,872	$ 29,117
Fair value of notional	26,932	29,454
Gross and net fair value (liability)	$ (60)	$ (337)

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

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
		(In thousands)		
As of June 30, 2011				
U.S. government obligations	$ 50,344	$ 1,409	$	$ 51,753
Municipal securities	21,887	13	(5)	21,895
Corporate bonds	2,042	6		2,048
Total securities available-for-sale	$ 74,273	$ 1,428	$ (5)	$ 75,696
As of December 31, 2010				
U.S. government obligations	$ 40,383	$ 968	$	$ 41,351
Municipal securities	29,150	14	(19)	29,145
Corporate bonds	2,056			2,056
Total securities available-for-sale	$ 71,589	$ 982	$ (19)	$ 72,552

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

	As of	
	June 30, 2011	**December 31, 2010**
	(In thousands)	
Less than one year	$ 21,378	$ 23,593

Due in 1 - 5 years	54,318		48,959
Total securities available-for-sale	$ 75,696	$	72,552

Proceeds from the maturities of securities available-for-sale during the six months ended June 30, 2011 and 2010 were $9.9 million and $29.2 million, respectively.

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

	Less than Twelve Months		Twelve Months or More		Total	
	Estimated fair value	Gross unrealized losses	Estimated fair value	Gross unrealized losses	Estimated fair value	Gross unrealized losses
			(In thousands)			
As of June 30, 2011						
U.S. government obligations	$	$	$	$	$	$
Municipal securities	10,623	(5)			10,623	(5)
Corporate bonds						
Total securities available-for-sale	$ 10,623	$ (5)	$	$	$ 10,623	$ (5)
As of December 31, 2010						
U.S. government obligations	$	$	$	$	$	$
Municipal securities	18,218	(19)			18,218	(19)
Corporate bonds						
Total securities available-for-sale	$ 18,218	$ (19)	$	$	$ 18,218	$ (19)

5. Goodwill and Intangible Assets

Goodwill and intangible assets principally relate to the acquisitions of Greenline Financial Technologies, Inc. in 2008 and Trade West Systems, LLC in 2007. Goodwill was $31.8 million as of both June 30, 2011 and December 31, 2010. Intangible assets that are subject to amortization, including the related accumulated amortization, are comprised of the following:

	June 30, 2011			December 31, 2010		
	Cost	Accumulated Amortization	Net Carrying Amount	Cost	Accumulated Amortization	Net Carrying Amount
			(In thousands)			
Technology	$ 4,010	$ (2,854)	$ 1,156	$ 4,010	$ (2,505)	$ 1,505
Customer relationships	3,530	(1,791)	1,739	3,530	(1,584)	1,946
Non-competition agreements	1,260	(836)	424	1,260	(710)	550
Tradenames	590	(415)	175	590	(363)	227
Total	$ 9,390	$ (5,897)	$ 3,493	$ 9,390	$ (5,162)	$ 4,228

Amortization expense associated with identifiable intangible assets was $0.7 million and $0.8 million for the six months ended June 30, 2011 and 2010, respectively. Estimated total amortization expense is $1.5 million for 2011, $1.4 million for 2012, $0.5 million for 2013, $0.3 million for 2014 and $0.2 million for 2015.

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6. Income Taxes

The provision for income taxes consists of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(In thousands)			
Current:				
Federal	$	$ 242	$	$ 406
State and local	1,674	1	1,920	(32)
Foreign	713	488	507	1,010
Total current provision	2,387	731	2,427	1,384
Deferred:				
Federal	4,905	3,231	9,365	6,169
State and local	1,168	764	2,952	1,485
Foreign	(492)	(39)	110	33
Total deferred provision	5,581	3,956	12,427	7,687
Provision for income taxes	$ 7,968	$ 4,687	$ 14,854	$ 9,071

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

	As of June 30, 2011	As of December 31, 2010
	(In thousands)	
Deferred tax assets and liabilities	$ 14,566	$ 20,062
Valuation allowance	(270)	(249)
Deferred tax assets, net	$ 14,296	$ 19,813

In April 2000, the Board of Directors initiated a warrant program that commenced on February 1, 2001. Under this program, the Company reserved for issuance 5,000,002 shares of common stock. The warrants were issued to certain broker-dealer stockholders (the Warrant Holders). The Warrant Holders were entitled to purchase shares of common stock from the Company at an exercise price of $.003. The warrants were issued to the Warrant Holders at the time that they made an equity investment in the Company. Allocations were based on each Warrant Holder s respective commissions as a percentage of the total commissions from the six participating Warrant Holders, calculated on a quarterly basis. The final share allocations under the warrant program occurred on March 1, 2004. Shares allocated under the warrant program were expensed on a quarterly basis at fair market value. All of the warrants were exercised prior to 2008. Through December 31, 2009, the tax benefit on a portion of the tax deduction generated on the exercise of the warrants had not yet been recorded. During 2010, the Company recognized a portion of the tax benefits amounting to $11.4 million as an increase to additional paid-in-capital due to the utilization of the related tax loss carryforwards of $31.0 million. During the first quarter of 2011, the Company recognized the remaining portion of the tax benefit, amounting to $4.2 million, as an increase to additional paid-in-capital due to the expected utilization of the related tax loss carryforwards of $10.4 million.

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

During the first quarter of 2011, the Company reached a settlement for a reimbursement claim on previously paid sales tax amounting to approximately $0.7 million. This amount has been reflected as a reduction of general and administrative expenses in the Consolidated Statements of Operations.

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7. Related Party

The Company generates commissions, technology products and services revenues, information and user access fees, investment income and other income and related accounts receivable balances from the Stockholder Broker-Dealer Client or its affiliates. In addition, the Stockholder Broker-Dealer Client acts in an investment advisory, custodial and cash management capacity for the Company. The Company incurs bank fees in connection with these arrangements. The Company also maintained an account with and paid commissions to the Stockholder Broker-Dealer Client in connection with a 2010 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 Client or its affiliates:

	As of	
	June 30, 2011	December 31, 2010
	(In thousands)	
Cash and cash equivalents	$ 124,585	$ 110,642
Securities and cash provided as collateral	4,063	4,049
Accounts receivable	1,713	829
Accounts payable	15	66

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(In thousands)			
Commissions	$ 1,503	$ 1,381	$ 3,223	$ 2,738
Technology products and services	45	5	45	11
Information and user access fees	46	22	93	53
Investment income	22	22	47	35
Other income	17	15	33	31
General and administrative	20	17	40	44

8. Stock-Based Compensation Plans

Stock-based compensation expense for the three and six months ended June 30, 2011 and 2010 was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(In thousands)			
Employee:				
Stock options	$ (168)	$ 432	$ 127	$ 871
Restricted stock and performance shares	860	1,777	2,682	3,378
	692	2,209	2,809	4,249
Non-employee directors:				
Stock options		29		83
Restricted stock	117	68	290	168
	117	97	290	251
Total stock-based compensation	$ 809	$ 2,306	$ 3,099	$ 4,500

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. In conjunction with the June 2011 resignation of the Company s President, unvested stock options, restricted stock and performance shares were canceled and previously recorded expense amounting to $1.4 million was reversed.

During the six months ended June 30, 2011, the Company granted to employees a total of 340,771 options to purchase shares of common stock, 409,718 shares of restricted stock or restricted stock units and performance-based shares with an expected pay-out at target of 77,665 shares of common stock. Based on the Black-Scholes option pricing model, the weighted-average fair value for each option granted was $11.29 per share. The fair value of the restricted stock and performance-based share awards was based on a weighted-average grant date fair value per share of $21.58 and $21.56, respectively. As of June 30, 2011, the total unrecognized compensation costs related to non-vested awards was $15.4 million. That cost is expected to be recognized over a weighted-average period of 1.9 years.

9. Earnings Per Share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(In thousands, except per share amounts)			
Basic EPS				
Net income	$ 11,937	$ 7,169	$ 22,717	$ 13,870
Amount allocable to common shareholders	100.0%	90.6%	100.0%	90.6%
Net income applicable to common stock	$ 11,937	$ 6,493	$ 22,717	$ 12,564
Common stock voting	34,176	31,147	34,049	31,093
Common stock non-voting	2,586	2,586	2,586	2,586
Basic weighted average shares outstanding	36,762	33,733	36,635	33,679
Basic earnings per share	$ 0.32	$ 0.19	$ 0.62	$ 0.37
Diluted EPS				
Net income	$ 11,937	$ 7,169	$ 22,717	$ 13,870
Basic weighted average shares outstanding	36,762	33,733	36,635	33,679
Effect of dilutive shares:				
Series B Preferred Stock		3,500		3,500
Stock options, restricted stock and warrants	2,728	2,281	2,761	2,230
Diluted weighted average shares outstanding	39,490	39,514	39,396	39,409
Diluted earnings per share	$ 0.30	$ 0.18	$ 0.58	$ 0.35

Stock options, restricted stock and warrants totaling 0.3 million shares and 0.5 million shares for the three months ended June 30, 2011 and 2010, respectively, and 0.3 million shares and 0.6 million shares for the six months ended June 30, 2011 and 2010, respectively, were excluded from the computation of diluted earnings per share because their effect would have been antidilutive. The computation of diluted shares can vary among periods due, in part, to the change in the average price of the Company s common stock.

10. Commitments and Contingencies

The Company leases office space and equipment under non-cancelable lease agreements expiring at various dates through 2022. Office space leases are subject to escalation based on certain costs incurred by the landlord. Minimum rental commitments as of June 30, 2011 under such operating and capital leases were as follows:

	Operating Leases	Capital Leases
	(In thousands)	
Remainder of 2011	$ 893	$ 168
2012	1,810	335
2013	1,794	322
2014	1,761	42
2015	2,022	
2016	2,035	
Thereafter	10,192	
Minimum lease payments	20,507	867
Less amount representing interest		78
	$ 20,507	$ 789

Rental expense was $1.2 million and $1.5 million for the six months ended June 30, 2011 and 2010, respectively, and is included in occupancy expenses in the Consolidated Statements of Operations. Rental expense has been recorded based on the total minimum lease payments after giving effect to rent abatement and concessions, which are being amortized on a straight-line basis over the life of the lease, and sublease income.

In 2008, the Company assigned the lease agreement on a leased property to a third party. The Company is contingently liable should the assignee default on future lease obligations through the November 2015 lease termination date. The aggregate amount of future lease obligations under this arrangement was $1.6 million as of June 30, 2011.

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 prepaid expenses and other assets in the Consolidated Statements of Financial Condition and had a fair market value and amortized cost of $3.5 million as of June 30, 2011 and December 31, 2010.

The Company, through two regulated subsidiaries, executes certain bond transactions between and among institutional investor and broker-dealer clients on a riskless principal basis by serving as counterparty to both the buyer and the seller in matching back-to-back trades, which are then settled through a third-party clearing organization. The Company acts as intermediary on a riskless principal basis in these bond transactions by serving as counterparty to the two clients involved. Settlement typically occurs within one to three trading days after the trade date. Cash settlement of the transaction occurs upon receipt or delivery of the underlying instrument that was traded. Under securities clearing agreements with the independent third party, the Company maintains a collateral deposit with the clearing broker in the form of cash. As of June 30, 2011, the collateral deposit included in prepaid expenses and other assets in the Consolidated Statements of Financial Condition was $0.9 million. The Company is exposed to credit risk in the event a counterparty does not fulfill its obligation to complete a transaction. Pursuant to the terms of the securities clearing agreements between the Company and the independent clearing broker, the clearing broker has the right to charge the Company for losses resulting from a counterparty s failure to fulfill its contractual obligations. The losses are not capped at a maximum amount and apply to all trades executed through the clearing broker. At June 30, 2011, the Company had not recorded any liabilities with regard to this right.

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

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

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11. Comprehensive Income

Comprehensive income was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(In thousands)			
Net income	$ 11,937	$ 7,169	$ 22,717	$ 13,870
Cumulative translation adjustment and foreign currency exchange hedge, net of taxes	(86)	(124)	(324)	(317)
Unrealized gain on securities available-for-sale, net of taxes	392	429	282	574
Total comprehensive income	$ 12,243	$ 7,474	$ 22,675	$ 14,127

12. Customer Concentration

During both the six months ended June 30, 2011 and 2010, no single client accounted for more than 10% of total revenue. One client accounted for 15.7% and 15.5% of trading volumes during the six months ended June 30, 2011 and 2010, respectively.

13. Series B Preferred Stock Conversion

During 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 sold to the Purchasers (i) 35,000 shares of the Company s Series B Preferred Stock, which shares were 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 net proceeds, after the placement agent fee and legal fees, were $33.5 million. 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 shares of Series B Preferred Stock were convertible at any time by the holders thereof at a conversion price of $10.00 per share, subject to certain anti-dilution adjustments and also were subject to automatic conversion into shares of common stock if the closing price of the common stock was at least $17.50 on each trading day for a period of 65 consecutive trading days. On January 24, 2011, all of the shares of the Series B Preferred Stock were mandatorily and automatically converted into 3,499,999 shares of common stock. 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.

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Item 2. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

Forward-Looking Statements

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

Executive Overview

MarketAxess operates a leading electronic trading platform that allows investment industry professionals to efficiently trade corporate bonds and other types of fixed-income instruments. Our over 850 active institutional investor clients (firms that executed at least one trade in U.S. or European fixed-income securities through our electronic trading platform between July 2010 and June 2011) include investment advisers, mutual funds, insurance companies, public and private pension funds, bank portfolios, broker-dealers and hedge funds. Our 81 broker-dealer market-maker clients provide liquidity on the platform and include most of the leading broker-dealers in global fixed-income trading. The Company also executes certain bond transactions between and among institutional investor and broker-dealer clients on a riskless principal basis by serving as counterparty to both the buyer and the seller in matching back-to-back trades, which then settle through a third-party clearing organization. Through our Corporate BondTicker service, we provide fixed-income market data, analytics and compliance tools that help our clients make trading decisions. In addition, we provide FIX (Financial Information eXchange) message management tools, connectivity solutions and ancillary technology services that facilitate the electronic communication of order information between trading counterparties. Our revenues are primarily generated from the trading of U.S. 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, asset-backed and preferred securities and credit default swaps.

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

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

- to innovate and efficiently add new functionality and product offerings to the MarketAxess platform that we believe will help to increase our market share with existing clients, as well as expand our client base;
- to leverage our technology, as well as our strong broker-dealer and institutional investor relationships, to deploy our electronic trading platform into additional product segments within the fixed-income securities

markets, deliver fixed-income securities-related technical services and products and deploy our electronic trading platform into new client segments;

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

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

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

Critical Factors Affecting Our Industry and Our Company

Economic, Political and Market Factors

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

Competitive Landscape

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

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

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

Regulatory Environment

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

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

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On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) was signed into law, marking the greatest change to financial supervision since the 1930 s. U.S. financial regulators are in the midst of an intense period of rulemaking to implement the provisions of the Dodd-Frank Act, and market participants will need to make strategic decisions in an environment of regulatory uncertainty. Among the most significant aspects of the derivatives section of the Dodd-Frank Act are mandatory clearing of certain derivatives transactions (swaps) through regulated central clearing organizations and mandatory trading of those swaps through either regulated exchanges or swap execution facilities, in each case, subject to certain key exceptions. As with other parts of the Dodd-Frank Act, many of the details of the new regulatory regime relating to swaps are left to the regulators to determine through rulemaking. Subject to such rulemaking, we currently expect to establish and operate a swap execution facility and/or a security-based swap execution facility.

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

Rapid Technological Changes

We must continue to enhance and improve our electronic trading platform. The electronic financial services industry is characterized by increasingly complex systems and infrastructures and new business models. Our future success will depend on our ability to enhance our existing products and services, develop and/or license new products and technologies that address the increasingly sophisticated and varied needs of our broker-dealer and institutional investor clients and prospective clients and respond to technological advances and emerging industry standards and practices on a cost-effective and timely basis. We received five patents in 2009 covering our most significant trading protocols and other aspects of our trading system technology, we received two additional patents in 2010 and other patents are pending.

Trends in Our Business

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

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

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

Commission Revenue

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

while bonds that are less actively traded or that have longer maturities generally command higher commissions.

U.S. High-Grade Corporate Bond Commissions. Our U.S. high-grade corporate bond fee plans for fully electronic trades generally incorporate monthly distribution fees and variable transaction fees billed to our broker-dealer clients on a monthly basis. Certain dealers participate in fee programs which do not contain fixed monthly distribution fees and instead incorporate additional per transaction execution fees and minimum monthly fee commitments. Under the fee plans, we electronically add the transaction fee to the spread quoted by the broker-dealer client.

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

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

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

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

Other Revenue

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

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

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

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

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

Expenses

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

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

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

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

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

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

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

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

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

Critical Accounting Estimates

This Management s Discussion and Analysis of Financial Condition and Results of Operations discusses our Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States, also referred to as U.S. GAAP. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of income and expenses during the reporting periods. We base our estimates and judgments on historical experience and on various other factors that we believe are reasonable under the circumstances. Actual results may differ from these estimates under varying assumptions or conditions. Note 2 of the Notes to our Consolidated Financial Statements includes a summary of the significant accounting policies and methods used in the preparation of our Consolidated Financial Statements. Other than the adoption of new authoritative guidance on revenue recognition for arrangements with multiple deliverables, there were no significant changes to our critical accounting policies and estimates during the six months ended June 30, 2011, 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, 2010. The adoption of the new revenue recognition guidance effective January 1, 2011 did not have a material impact on the Company s Consolidated Financial Statements.

Segment Results

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

Results of Operations

Three Months Ended June 30, 2011 Compared to Three Months Ended June 30, 2010

Overview

Total revenues increased by $10.5 million or 29.6% to $45.8 million for the three months ended June 30, 2011, from $35.3 million for the three months ended June 30, 2010. This increase in total revenues was primarily due to an increase in commissions of $9.6 million and technology products and services revenues of $0.7 million.

Total expenses increased by $2.4 million or 10.3% to $25.9 million for the three months ended June 30, 2011, from $23.5 million for the three months ended June 30, 2010. This increase was primarily due to higher employee compensation and benefits of $0.9 million, professional and consulting fees of $0.7 million and marketing and advertising expenses of $0.5 million.

Income before taxes increased by $8.0 million or 67.9% to $19.9 million for the three months ended June 30, 2011, from $11.9 million for the three months ended June 30, 2010. Net income increased by $5.0 million or 69.6% to $12.2 million for the three months ended June 30, 2011, from $7.2 million for three months ended June 30, 2010.

Revenues

Our revenues for the three months ended June 30, 2011 and 2010, and the resulting dollar and percentage changes, were as follows:

	Three Months Ended June 30,					
	2011		2010			
	$	% of Revenues	$	% of Revenues	$ Change	% Change
	($ in thousands)					
Commissions	$ 39,076	85.3%	$ 29,460	83.4%	$ 9,616	32.6%
Technology products and services	3,984	8.7	3,251	9.2	733	22.5
Information and user access fees	1,719	3.8	1,722	4.9	(3)	(0.2)
Investment income	310	0.7	315	0.9	(5)	(1.6)
Other	702	1.5	578	1.6	124	21.5
Total revenues	$ 45,791	100.0%	$ 35,326	100.0%	$ 10,465	29.6%

Commissions. Our commission revenues for the three months ended June 30, 2011 and 2010, and the resulting dollar and percentage changes, were as follows:

	Three Months Ended June 30,			
	2011	2010	$ Change	% Change
	($ in thousands)			
Distribution fees				
U.S. high-grade	$ 11,941	$ 9,256	$ 2,685	29.0%
Eurobond	3,659	3,016	643	21.3
Total distribution fees	15,600	12,272	3,328	27.1
Variable transaction fees				
U.S. high-grade	14,889	10,993	3,896	35.4
Eurobond	947	1,653	(706)	(42.7)
Other	7,640	4,542	3,098	68.2

Total variable transaction fees		23,476		17,188		6,288	36.6
Total commissions	$	39,076	$	29,460	$	9,616	32.6%

The $3.3 million increase in distribution fees for the three months ended June 30, 2011 compared to the three months ended June 30, 2010 is due principally to the migration of several U.S. broker-dealer market makers from an all-variable fee plan to a plan which incorporates a combination of a monthly distribution fee and variable transaction fees, and the addition of several new U.S. and European broker-dealer market makers to the trading platform.
The following table shows the extent to which the increase in commissions for the three months ended June 30, 2011 was attributable to changes in transaction volumes, variable transaction fees per million and monthly distribution fees:

	Change from Three Months Ended June 30, 2010			
	U.S. High-Grade	Eurobond	Other	Total
	(In thousands)			
Volume increase (decrease)	$ 4,296	$ (356)	$ 2,437	$ 6,065
Variable transaction fee per million (decrease) increase	(400)	(350)	661	223
Monthly distribution fees increase	2,685	643		3,328
Total commissions increase (decrease)	$ 6,581	$ (63)	$ 3,098	$ 9,616

Our trading volumes for the three months ended June 30, 2011 and 2010 were as follows:

	Three Months Ended June 30,			
	2011	2010	$ Change	% Change
Trading Volume Data (in millions)				
U.S. high-grade fixed rate	$ 77,077	$ 55,829	$ 21,248	38.1%
U.S. high-grade floating rate	3,825	2,341	1,484	63.4
Total U.S. high-grade	80,902	58,170	22,732	39.1
Eurobond	9,998	12,739	(2,741)	(21.5)
Other	42,061	27,372	14,689	53.7
Total	$ 132,961	$ 98,281	$ 34,680	35.3%
Number of U.S. Trading Days	63	63		
Number of U.K. Trading Days	60	61		

For volume reporting purposes, transactions in foreign currencies are converted to U.S. dollars at average monthly rates. The 39.1% increase in U.S. high-grade volume was principally due to an increase in the Company s estimated market share of total U.S. high-grade corporate bond volume as reported by FINRA TRACE from 8.1% for the three months ended June 30, 2010 to 11.1% for the three months ended June 30, 2011. Estimated FINRA TRACE U.S. high-grade volume increased slightly to $729.8 billion for the three months ended June 30, 2011 from $720.3 billion for the three months ended June 30, 2010. Eurobond volumes decreased by 21.5% for the three months ended June 30, 2011 compared to the three months ended June 30, 2010. We believe that the decline in Eurobond volumes was due, in part, to continuing sovereign debt concerns that negatively impacted market conditions. Other volume increased by 53.7% for the three months ended June 30, 2011 compared to the three months ended June 30, 2010, primarily due to higher agency, emerging markets and high-yield bond volumes.

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Our average variable transaction fee per million for the three months ended June 30, 2011 and 2010 was as follows:

	Three Months Ended June 30,	
	2011	2010
Average Variable Transaction Fee Per Million		
U.S. high-grade fixed rate	$ 192	$ 196
U.S. high-grade floating rate	22	23
Total U.S. high-grade	184	189
Eurobond	95	130
Other	182	166
All Products	177	175

The U.S. high-grade average variable transaction fee per million decreased slightly from $189 for the three months ended June 30, 2010 to $184 for the three months ended June 30, 2011. The decline was primarily due to the migration of several U.S. broker-dealer market makers from an all-variable fee plan to a plan that incorporates a combination of a monthly distribution fee and variable transaction fees, coupled with a decline in the average years to maturity of U.S. high-grade bonds traded over the platform. The Eurobond average variable transaction fee per million decreased from $130 for the three months ended June 30, 2010 to $95 for the three months ended June 30, 2011. In June 2010, we launched a click-to-trade protocol in the European market. In connection with the launch, the Eurobond fee plan was generally revised downward. Other average variable transaction fee per million increased from $166 for the three months ended June 30, 2010 to $182 for the three months ended June 30, 2011, primarily due to improved fee capture for high-yield and emerging markets trading.

Technology Products and Services. Technology products and services revenues increased by $0.7 million or 22.5% to $4.0 million for the three months ended June 30, 2011, from $3.3 million for the three months ended June 30, 2010. The increase was primarily a result of higher technology integration consulting fees.

Information and User Access Fees. Information and user access fees were $1.7 million for both the three months ended June 30, 2011 and 2010.

Investment Income. Investment income was $0.3 million for both the three months ended June 30, 2011 and 2010.

Other. Other revenues increased by $0.1 million or 21.5% to $0.7 million for the three months ended June 30, 2011, from $0.6 million for the three months ended June 30, 2010.

Expenses
Our expenses for the three months ended June 30, 2011 and 2010, and the resulting dollar and percentage changes were as follows:

	Three Months Ended June 30,					
	2011		2010			
	$	% of Revenues	$	% of Revenues	$ Change	% Change
	($ in thousands)					
Employee compensation and benefits	$ 15,104	33.0%	$ 14,189	40.2%	$ 915	6.4%
Depreciation and amortization	1,627	3.6	1,622	4.6	5	0.3
Technology and communications	2,724	5.9	2,353	6.7	371	15.8
Professional and consulting fees	2,665	5.8	1,990	5.6	675	33.9
Occupancy	708	1.5	707	2.0	1	0.1
Marketing and advertising	1,248	2.7	759	2.1	489	64.4
General and administrative	1,810	4.0	1,850	5.2	(40)	(2.2)
Total expenses	$ 25,886	56.5%	$ 23,470	66.4%	$ 2,416	10.3%

Employee Compensation and Benefits. Employee compensation and benefits increased by $0.9 million or 6.4% to $15.1 million for the three months ended June 30, 2011, from $14.2 million for the three months ended June 30, 2010. This increase was primarily attributable to higher incentive compensation of $1.9 million due to improved operating performance and higher wages of $0.4 million, offset by a decline in stock-based compensation expense of $1.5 million. In conjunction with the June 2011 resignation of the Company s President, unvested stock options, restricted stock and performance shares were canceled and previously recorded expense amounting to $1.4 million was reversed.

Depreciation and Amortization. Depreciation and amortization was $1.6 million for both the three months ended June 30, 2011 and 2010. For the three months ended June 30, 2011 and 2010, we capitalized $1.0 million and $0.9 million, respectively, of leasehold improvements and equipment purchases and $0.9 million and $0.4 million, respectively, of software development costs. The 2010 equipment and leasehold improvement expenditures included $0.5 million associated with the move of our corporate offices to new premises in New York City in the first quarter of 2010.

Technology and Communications. Technology and communications expenses increased by $0.4 million or 15.8% to $2.7 million for the three months ended June 30, 2011 from $2.4 million for the three months ended June 30, 2010. The increase was primarily attributable to higher telecommunication expenses.

Professional and Consulting Fees. Professional and consulting fees increased by $0.7 million or 33.9% to $2.7 million for the three months ended June 30, 2011, from $2.0 million for the three months ended June 30, 2010. The increase was principally due to higher technology consulting costs of $0.4 million.

Occupancy. Occupancy costs were $0.7 million for both the three months ended June 30, 2011 and 2010.

Marketing and Advertising. Marketing and advertising expenses increased by $0.5 million or 64.4% to $1.2 million for the three months ended June 30, 2011, from $0.8 million for the three months ended June 30, 2010. The increase was principally due to higher travel and entertainment expenses related to sales activities and higher advertising costs.

General and Administrative. General and administrative expenses decreased slightly to $1.8 million for the three months ended June 30, 2011, from $1.9 million for the three months ended June 30, 2010.

Provision for Income Tax. For the three months ended June 30, 2011 and 2010, we recorded an income tax provision of $8.0 million and $4.7 million, respectively. The increase in the tax provision was primarily attributable to the

$8.0 million increase in pre-tax income for the period. With the exception of certain foreign and state and local taxes, the provision for income taxes was a non-cash expense since we had net operating loss and tax credit carryforwards available to offset taxable income.

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Our consolidated effective tax rate for the three months ended June 30, 2011 was 40.0%, compared to 39.5% for the three months ended June 30, 2010. Our consolidated effective tax rate can vary from period to period depending on, among other factors, the geographic and business mix of our earnings and changes in tax legislation and tax rates. Due to our net deferred tax asset balance, a decrease in tax rates results in a reduction in our deferred tax balance and an increase in tax expense in the period in which the change occurs.

Six Months Ended June 30, 2011 Compared to Six Months Ended June 30, 2010

Overview

Total revenues increased by $19.2 million or 27.3% to $89.4 million for the six months ended June 30, 2011, from $70.2 million for the six months ended June 30, 2010. This increase in total revenues was primarily due to an increase in commissions of $18.1 million and technology products and services revenues of $0.7 million.

Total expenses increased by $4.6 million or 9.6% to $51.8 million for the six months ended June 30, 2011, from $47.3 million for the six months ended June 30, 2010. This increase was primarily due to higher employee compensation and benefits of $3.3 million and professional and consulting fees of $1.4 million, offset by a decline in general and administrative expenses of $1.2 million.

Income before taxes increased by $14.6 million or 63.8% to $37.6 million for the six months ended June 30, 2011, from $22.9 million for the six months ended June 30, 2010. Net income increased by $8.8 million or 63.8% to $22.7 million for the six months ended June 30, 2011, from $13.9 million for six months ended June 30, 2010.

Revenues

Our revenues for the six months ended June 30, 2011 and 2010, and the resulting dollar and percentage changes, were as follows:

	Six Months Ended June 30,					
	2011		2010			
	$	% of Revenues	$	% of Revenues	$ Change	% Change
	($ in thousands)					
Commissions	$ 76,861	86.0%	$ 58,767	83.7%	$ 18,094	30.8%
Technology products and services	7,092	7.9	6,415	9.1	677	10.6
Information and user access fees	3,408	3.8	3,356	4.8	52	1.5
Investment income	609	0.7	606	0.9	3	0.5
Other	1,430	1.6	1,066	1.5	364	34.1
Total revenues	$ 89,400	100.0%	$ 70,210	100.0%	$ 19,190	27.3%

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Commissions. Our commission revenues for the six months ended June 30, 2011 and 2010, and the resulting dollar and percentage changes, were as follows:

	Six Months Ended June 30,			
	2011	2010	$ Change	% Change
	($ in thousands)			
Distribution fees				
U.S. high-grade	$ 23,651	$ 18,238	$ 5,413	29.7%
Eurobond	7,134	6,282	852	13.6
Total distribution fees	30,785	24,520	6,265	25.6
Variable transaction fees				
U.S. high-grade	29,557	21,787	7,770	35.7
Eurobond	2,089	3,879	(1,790)	(46.1)
Other	14,430	8,581	5,849	68.2
Total variable transaction fees	46,076	34,247	11,829	34.5
Total commissions	$ 76,861	$ 58,767	$ 18,094	30.8%

The $6.3 million increase in distribution fees for the six months ended June 30, 2011 compared to the six months ended June 30, 2010 is due principally to the migration of several U.S. broker-dealer market makers from an all-variable fee plan to a plan which incorporates a combination of a monthly distribution fee and variable transaction fees, and the addition of several new U.S. and European broker-dealer market makers to the trading platform.

The following table shows the extent to which the increase in commissions for the six months ended June 30, 2011 was attributable to changes in transaction volumes, variable transaction fees per million and monthly distribution fees:

	Change from Six Months Ended June 30, 2010			
	U.S. High-Grade	Eurobond	Other	Total
	(In thousands)			
Volume increase (decrease)	$ 8,451	$ (1,004)	$ 5,543	$ 12,253
Variable transaction fee per million (decrease) increase	(681)	(786)	306	(424)
Monthly distribution fees increase	5,413	852		6,265
Total commissions increase (decrease)	$ 13,183	$ (938)	$ 5,849	$ 18,094

Our trading volumes for the six months ended June 30, 2011 and 2010 were as follows:

	Six Months Ended June 30,			
	2011	2010	$ Change	% Change
Trading Volume Data (in millions)				
U.S. high-grade fixed rate	$ 159,344	$ 114,495	$ 44,849	39.2%
U.S. high-grade floating rate	6,763	5,186	1,577	30.4
Total U.S. high-grade	166,107	119,681	46,426	38.8

Eurobond	21,311	28,758	(7,447)	(25.9)
Other	80,722	49,044	31,678	64.6
Total	$ 268,140	$ 197,483	$ 70,657	35.8%
Number of U.S. Trading Days	125	124		
Number of U.K. Trading Days	123	124		

For volume reporting purposes, transactions in foreign currencies are converted to U.S. dollars at average monthly rates. The 38.8% increase in U.S. high-grade volume was principally due to an increase in the Company s estimated market share of total U.S. high-grade corporate bond volume as reported by FINRA TRACE from 8.0% for the six months ended June 30, 2010 to 10.4% for the six months ended June 30, 2011, coupled with an increase in overall market volume as measured by FINRA TRACE. Estimated FINRA TRACE U.S. high-grade volume increased by 6.3% to $1.59 trillion for the six months ended June 30, 2011 from $1.50 trillion for the six months ended June 30, 2010. Eurobond volumes decreased by 25.9% for the six months ended June 30, 2011 compared to the six months ended June 30, 2010. We believe that the decline in Eurobond volumes was due, in part, to continuing sovereign debt concerns that negatively impacted market conditions. Other volume increased by 64.6% for the six months ended June 30, 2011 compared to the six months ended June 30, 2010, primarily due to higher agency, emerging markets and high-yield bond volumes.

Our average variable transaction fee per million for the six months ended June 30, 2011 and 2010 was as follows:

	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Average Variable Transaction Fee Per Million		
U.S. high-grade fixed rate	$ 185	$ 189
U.S. high-grade floating rate	20	25
Total U.S. high-grade	178	182
Eurobond	98	135
Other	179	175
All Products	172	173

The U.S. high-grade average variable transaction fee per million decreased slightly from $182 for the six months ended June 30, 2010 to $178 for the six months ended June 30, 2011. The decline was primarily due to the migration of several U.S. broker-dealer market makers from an all-variable fee plan to a plan which incorporates a combination of a monthly distribution fee and variable transaction fees. The Eurobond average variable transaction fee per million decreased from $135 for the six months ended June 30, 2010 to $98 for the six months ended June 30, 2011. In June 2010, we launched a click-to-trade protocol in the European market. In connection with the launch, the Eurobond fee plan was generally revised downward. Other average variable transaction fee per million increased from $175 for the six months ended June 30, 2010 to $179 for the six months ended June 30, 2011, primarily due to improved fee capture for high-yield and emerging markets trading.

Technology Products and Services. Technology products and services revenues increased by $0.7 million or 10.6% to $7.1 million for the six months ended June 30, 2011, from $6.4 million for the six months ended June 30, 2010. The increase was primarily a result of higher technology integration consulting fees.

Information and User Access Fees. Information and user access fees were $3.4 million for both the six months ended June 30, 2011 and 2010.

Investment Income. Investment income was $0.6 million for both the six months ended June 30, 2011 and 2010.

Other. Other revenues increased by $0.4 million or 34.1% to $1.4 million for the six months ended June 30, 2011, from $1.1 million for the six months ended June 30, 2010. The increase was primarily attributable to higher initial set-up fees from new broker-dealer clients.

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Expenses

Our expenses for the six months ended June 30, 2011 and 2010, and the resulting dollar and percentage changes were as follows:

	Six Months Ended June 30,					
	2011		2010			
	$	% of Revenues	$	% of Revenues	$ Change	% Change
	($ in thousands)					
Employee compensation and benefits	$ 31,372	35.1%	$ 28,122	40.1%	$ 3,250	11.6%
Depreciation and amortization	3,189	3.6	3,238	4.6	(49)	(1.5)
Technology and communications	5,224	5.8	4,770	6.8	454	9.5
Professional and consulting fees	5,537	6.2	4,128	5.9	1,409	34.1
Occupancy	1,474	1.6	1,645	2.3	(171)	(10.4)
Marketing and advertising	2,222	2.5	1,387	2.0	835	60.2
General and administrative	2,811	3.1	3,979	5.7	(1,168)	(29.4)
Total expenses	$ 51,829	58.0%	$ 47,269	67.3%	$ 4,560	9.6%

Employee Compensation and Benefits. Employee compensation and benefits increased by $3.3 million or 11.6% to $31.4 million for the six months ended June 30, 2011, from $28.1 million for the six months ended June 30, 2010. This increase was primarily attributable to higher incentive compensation of $3.4 million due to improved operating performance and higher wages and employer taxes and benefits aggregating $1.3 million, offset by a decline in stock-based compensation expense of $1.4 million. In conjunction with the June 2011 resignation of the Company s President, unvested stock options, restricted stock and performance shares were canceled and previously recorded expense amounting to $1.4 million was reversed.

Depreciation and Amortization. Depreciation and amortization was $3.2 million for both the six months ended June 30, 2011 and 2010. For the six months ended June 30, 2011 and 2010, we capitalized $1.5 million and $3.8 million, respectively, of leasehold improvements and equipment purchases and $1.8 million and $0.8 million, respectively, of software development costs. The 2010 equipment and leasehold improvement expenditures included $2.4 million associated with the move of our corporate offices to new premises in New York City in the first quarter of 2010.

Technology and Communications. Technology and communications expenses increased by $0.5 million or 9.5% to $5.2 million for the six months ended June 30, 2011 from $4.8 million for the six months ended June 30, 2010. The increase was primarily attributable to higher production data costs and telecommunication expenses.

Professional and Consulting Fees. Professional and consulting fees increased by $1.4 million or 34.1% to $5.5 million for the six months ended June 30, 2011, from $4.1 million for the six months ended June 30, 2010. The increase was due to higher legal expense, principally associated with swap execution facility-related regulation of $0.8 million and technology consulting costs of $0.7 million.

Occupancy. Occupancy costs decreased by $0.2 million or 10.4% to $1.5 million for the six months ended June 30, 2011, from $1.6 million for the six months ended June 30, 2010. Occupancy costs in 2010 included a two-month overlap in rental costs for both our old and new premises leased in New York City.

Marketing and Advertising. Marketing and advertising expenses increased by $0.8 million or 60.2% to $2.2 million for the six months ended June 30, 2011, from $1.4 million for the six months ended June 30, 2010. The increase was principally due to higher travel and entertainment expenses related to sales activities and higher advertising costs.

General and Administrative. General and administrative expenses decreased by $1.2 million or 29.4% to $2.8 million for the six months ended June 30, 2011, from $4.0 million for the six months ended June 30, 2010. During the first quarter of 2011, we reached a settlement for a reimbursement claim on previously paid sales tax amounting to approximately $0.7 million. The decrease in general and administrative expenses was primarily attributable to the sales tax credit coupled with a decline in the charge for doubtful accounts of $0.4 million.

Provision for Income Tax. For the six months ended June 30, 2011 and 2010, we recorded an income tax provision of $14.9 million and $9.1 million, respectively. The increase in the tax provision was primarily attributable to the $14.6 million increase in pre- tax income for the period. With the exception of certain foreign and state and local taxes, the provision for income taxes was a non-cash expense since we had net operating loss and tax credit carryforwards available to offset taxable income.

Our consolidated effective tax rate for both the six months ended June 30, 2011 and June 30, 2010 was 39.5%. Our consolidated effective tax rate can vary from period to period depending on, among other factors, the geographic and business mix of our earnings and changes in tax legislation and tax rates. Due to our net deferred tax asset balance, a decrease in tax rates results in a reduction in our deferred tax balance and an increase in tax expense in the period in which the change occurs.

Liquidity and Capital Resources

During the past three years, we have met our cash needs through cash on hand, internally generated funds and the issuance of Series B Preferred Stock. Cash and cash equivalents and securities available-for-sale totaled $211.5 million at June 30, 2011. Other than equipment-related capital lease obligations amounting to $0.8 million as of June 30, 2011, we have no long-term or short-term debt and do not maintain bank lines of credit.

Our cash flows were as follows:

	Six Months Ended June 30,	
	2011	**2010**
	(In thousands)	
Net cash provided by operating activities	$ 19,409	$ 22,557
Net cash (used in) investing activities	(6,014)	(6,717)
Net cash (used in) financing activities	(2,084)	(5,145)
Effect of exchange rate changes on cash and cash equivalents	(537)	(510)
Net increase for the period	$ 10,774	$ 10,185

We define free cash flow as cash flow from operating activities less expenditures for furniture, equipment and leasehold improvements and capitalized software development costs. For the 12 months ended June 30, 2011 and 2010, free cash flow was $55.2 million and $50.5 million, respectively. Free cash flow is a non-GAAP financial measure. The Company believes that this non-GAAP financial measure, when taken into consideration with the corresponding GAAP financial measures, is important in gaining an understanding of the Company s financial strength and cash flow generation.

Net cash provided by operating activities was $19.4 million for the six months ended June 30, 2011 compared to $22.6 million for the six months ended June 30, 2010. The $3.1 million decrease in net cash provided by operating activities was primarily due to an increase in cash used for working capital of $12.7 million and lower non-cash stock based compensation expense of $1.4 million, offset by an increase in net income of $8.8 million and higher non-cash deferred income taxes of $2.5 million. During the six months ended June 30, 2011, annual bonus payments were $16.7 million compared to $14.1 million for the six months ended June 30, 2010. We expect to fully utilize the balance of our unrestricted U.S. net operating loss carryforward during 2011, which would result in an increase in cash paid for income taxes in 2011 and subsequent years. During the six months ended June 30, 2011, cash paid for income taxes was $6.0 million compared to $1.1 million for the six months ended June 30, 2010.

Net cash used in investing activities was $6.0 million for the six months ended June 30, 2011 compared to $6.7 million for the six months ended June 30, 2010. Net purchases of securities available-for-sale were $2.7 million for the six months ended June 30, 2011 compared to net maturities of $2.1 million for the six months ended June 30, 2010. Capital expenditures were $3.3 million and $4.6 million for the six months ended June 30, 2011 and 2010, respectively. Leasehold improvements and equipment expenditures in 2010 included $2.4 million associated with the move of our corporate offices to new premises in New York City in the first quarter of 2010.

Net cash used in financing activities was $2.1 million for the six months ended June 30, 2011 compared to $5.1 million for the six months ended June 30, 2010. The $3.1 million decrease in net cash used in financing activities was principally due to an increase in windfall tax benefits on stock-based compensation of $2.5 million and an increase in the proceeds from the exercise of stock options and grants of restricted stock of $1.9 million, offset by an increase of $1.4 million in cash dividends paid in 2011 on common stock.

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

Other Factors Influencing Liquidity and Capital Resources

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

We believe that our current resources are adequate to meet our liquidity needs and capital expenditure requirements for at least the next 12 months. However, our future liquidity and capital requirements will depend on a number of factors, including expenses associated with product development and expansion and new business opportunities that are intended to further diversify our revenue stream. We may also acquire or invest in technologies, business ventures or products that are complementary to our business. In addition, we expect to fully utilize the balance of our unrestricted U.S. net operating loss carryforward during 2011, which would result in an increase in cash paid for income taxes in 2011 and subsequent years. In the event we require any additional financing, it will take the form of equity or debt financing. Any additional equity offerings may result in dilution to our stockholders. Any debt financings, if available at all, may involve restrictive covenants with respect to dividends, issuances of additional capital and other financial and operational matters related to our business.

We have three regulated subsidiaries, MarketAxess Corporation, MarketAxess Europe Limited and MarketAxess Canada Ltd. MarketAxess Corporation is a registered broker-dealer in the U.S., MarketAxess Europe Limited is a registered multilateral trading facility in the U.K. and MarketAxess Canada Ltd. is a registered Alternative Trading System in the Province of Ontario. As such, they are subject to minimum regulatory capital requirements imposed by their respective market regulators that are intended to ensure general financial soundness and liquidity based on certain minimum capital requirements. The relevant regulations prohibit a registrant from repaying borrowings from its parent or affiliates, paying cash dividends, making loans to its parent or affiliates or otherwise entering into transactions that result in a significant reduction in its regulatory net capital position without prior notification to or approval from its principal regulator. The capital structures of our subsidiaries are designed to provide each with capital and liquidity consistent with its business and regulatory requirements. Subject to rulemaking pursuant to the Dodd-Frank Act, we currently expect to establish and operate a swap execution facility and/or a security-based swap execution facility and we will be required to maintain an additional amount of minimum net capital in connection with such facilities. The following table sets forth the capital requirements, as defined, that the Company s subsidiaries were required to maintain as of June 30, 2011:

	MarketAxess Corporation	MarketAxess Europe Limited	MarketAxess Canada Limited
		(In thousands)	
Net capital	$ 67,079	$ 25,099	$ 425
Minimum net capital required	1,908	3,284	285
Excess net capital	$ 65,171	$ 21,815	$ 140

We execute certain bond transactions between and among institutional investor and broker-dealer clients on a riskless principal basis by serving as counterparty to both the buyer and the seller in matching back-to-back trades, which are then settled through a third-party clearing organization. We act as intermediary on a riskless principal basis in these bond transactions by serving as counterparty to the two clients involved. Settlement typically occurs within one to three trading days after the trade date. Cash settlement of the transaction occurs upon receipt or delivery of the underlying instrument that was traded. Under securities clearing agreements with the independent third party, we

maintain collateral deposits with the clearing broker in the form of cash or U.S. government securities. As of June 30, 2011, the collateral deposits included in prepaid expenses and other assets in the Consolidated Statements of Financial Condition were $0.9 million. We are exposed to credit risk in the event a counterparty does not fulfill its obligation to complete a transaction. Pursuant to the terms of the securities clearing agreements between us and the independent clearing broker, the clearing broker has the right to charge us for losses resulting from a counterparty s failure to fulfill its contractual obligations. The losses are not capped at a maximum amount and apply to all trades executed through the clearing broker. At June 30, 2011, we have not recorded any liabilities with regard to this right.

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

In October 2009, our Board of Directors approved our first regular quarterly dividend of $0.07 per share. The quarterly cash dividend was increased to $0.09 per share in the first quarter of 2011. In July 2011, our Board of Directors approved a quarterly cash dividend of $0.09 per share, which will be paid on August 25, 2011 to stockholders of record as of the close of business on August 11, 2011. We expect the total amount payable to be approximately $3.4 million. We expect to continue paying regular cash dividends, although there is no assurance as to such dividends. Any future declaration and payment of dividends will be at the sole discretion of our Board of Directors.

Effects of Inflation

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

Contractual Obligations and Commitments

There was no significant change in our contractual obligations and commitments for the six months ended June 30, 2011.

Item 3. ***Quantitative and Qualitative Disclosures About Market Risk***

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

Market Risk

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

As of June 30, 2011, we had a $75.7 million investment in securities available-for-sale. Adverse movements, such as a 10% decrease in the value of these securities or a downturn or disruption in the markets for these securities, could result in a substantial loss. In addition, principal gains and losses resulting from these securities could on occasion have a disproportionate effect, positive or negative, on our financial condition and results of operations for any particular reporting period.

Interest Rate Risk

Interest rate risk represents our exposure to interest rate changes with respect to the money market instruments, U.S. Treasury obligations and fixed-income securities in which we invest. As of June 30, 2011, our cash and cash equivalents and securities available-for-sale amounted to $211.5 million and were primarily in money market instruments, U.S. government obligations and municipal securities. We do not maintain an inventory of bonds that are traded on our platform.

Derivative Risk

Our limited derivative risk stems from our activities in the foreign currency forward contract market. We use this market to mitigate our U.S. dollar versus Pound Sterling exposure that arises from the activities of our U.K. subsidiary. As of June 30, 2011, the notional value of our foreign currency forward contract was $26.9 million. We do not speculate in any derivative instruments.

Credit Risk

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

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

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

(a) *Evaluation of Disclosure Controls and Procedures.* Our management, including the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as that term is defined in Rule 13a-15(e) and Rule 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act), as of June 30, 2011. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures are effective to ensure that information required to be disclosed by MarketAxess in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms, and to ensure that information is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

(b) *Changes in Internal Control Over Financial Reporting.* There were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) and Rule 15d-15(f) under the Exchange Act) during the quarter ended June 30, 2011 identified in connection with the evaluation thereof by our management, including the Chief Executive Officer and Chief Financial Officer, that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II Other Information

Item 1. ***Legal Proceedings***

None.

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

Risks that could have a negative impact on our business, results of operations and financial condition include: the level and intensity of competition in the fixed-income electronic trading industry and the pricing pressures that may result; the variability of our growth rate; the rapidly evolving nature of the electronic financial services industry; the level of trading volume transacted on the MarketAxess platform; potential fluctuations in our operating results, which may cause our stock price to decline; the absolute level and direction of interest rates and the corresponding volatility in the corporate fixed-income market; our ability to develop new products and offerings and the market s acceptance of those products; our exposure to risk resulting from non-performance by counterparties to transactions executed between our clients in which we act as an intermediary in matching back-to-back trades; our dependence on our broker-dealer clients and institutional investor clients; technology failures, security breaches or rapid technology changes that may harm our business; our ability to enter into strategic alliances and to acquire other businesses and successfully integrate them with our business; extensive government regulation; continuing international expansion that may present economic and regulatory challenges; and our future capital needs and our ability to obtain capital when needed. This list is intended to identify only certain of the principal factors that could have a material adverse impact on our business, results of operations and financial condition. A more detailed description of each of these and other important risk factors can be found under the caption Risk Factors in our most recent Form 10-K for the year ended December 31, 2010. There have been no material changes to the risk factors described in such Form 10-K.

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

Recent Sales of Unregistered Securities

None.

Issuer Purchases of Equity Securities

During the quarter ended June 30, 2011, we repurchased the following shares of common stock:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Dollar Value of Shares That May Yet Be Purchased Under the Plans
				(In thousands)
April 1, 2011 April 30, 2011	844	$ 24.82		$
May 1, 2011 May 31, 2011				
June 1, 2011 June 30, 2011				
	844	$ 24.82		

During the three months ended June 30, 2011, a total of 844 shares were surrendered by employees to us to satisfy the exercise price and employee withholding tax obligations upon the vesting of restricted shares and exercise of stock options.

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

None.

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

Item 5. ***Other Information***

None.

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Item 6. *Exhibits*

Exhibit Listing:

Number	Description
31.1	Certification by Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification by Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification by Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification by Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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SIGNATURES

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

	MARKETAXESS HOLDINGS INC.
Date: July 27, 2011	By: /s/ RICHARD M. MCVEY Richard M. McVey Chief Executive Officer (principal executive officer)
Date: July 27, 2011	By: /s/ ANTONIO L. DELISE Antonio L. DeLise Chief Financial Officer (principal financial and accounting officer)

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